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Combined Financial Statements
with Supplementary Schedule of Federal Assistance

June 30, 1988

(With Independent Auditors' Reports Thereon)

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CITY AND COUNTY OF SAN FRANCISCO
Combined Financial Statements
with Supplementary Schedule of Federal Assistance
June 30, 1988

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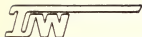
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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Board of Supervisors
City and County of San Francisco, California

We have audited the combined financial statements of the City and County of San Francisco as of and for the year ended June 30, 1988, as listed in the accompanying table of contents. These combined financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the City and County of San Francisco, at June 30, 1988, and the results of its operations and the changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining, individual fund, and account group financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements of the City and County of San Francisco. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Peat Marwick Main & Co.

Doyle, Williams, Adley & Company

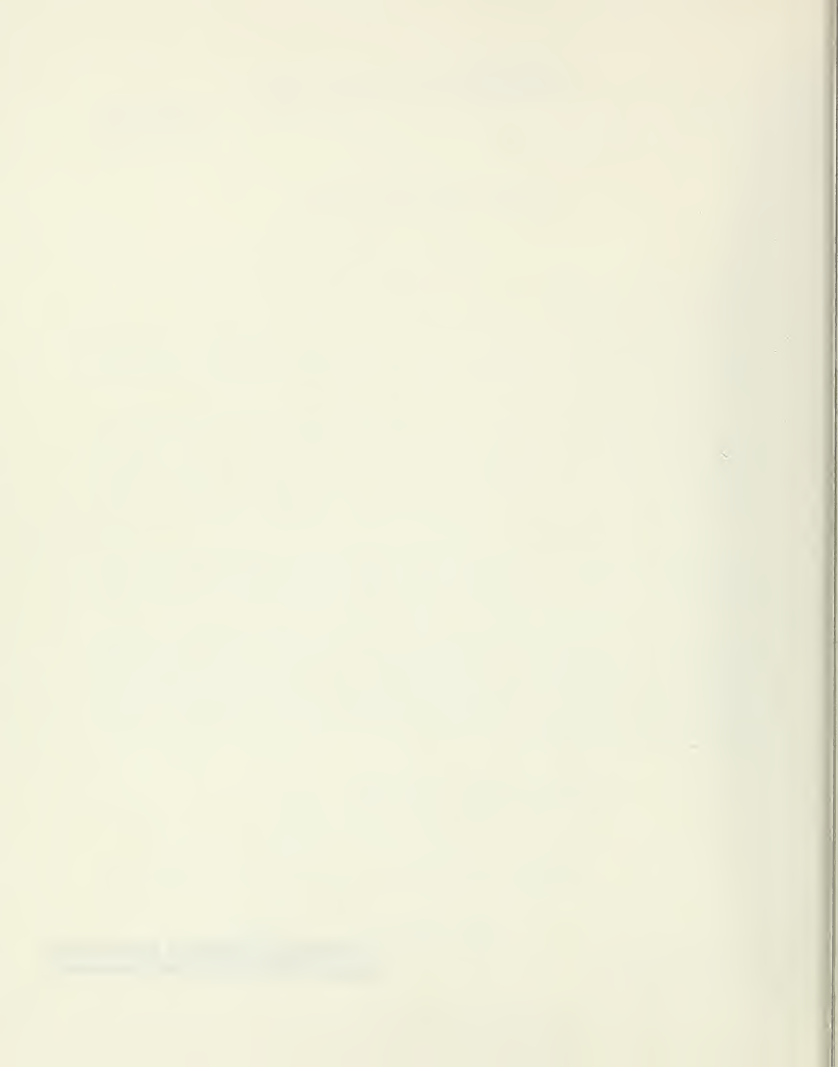
Chek F. Tan

San Francisco, California
November 9, 1988



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CITY AND COUNTY OF SAN FRANCISCO
Combined Balance Sheet—All Fund Types and Account Groups
June 30, 1988
(In Thousands)

ASSETS

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise (Note 9)	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
Deposits and investments (note 4)	\$ 9,117	\$100,709	\$ 2,329	\$126,014	\$ 316,177	\$ 3,523	\$ 143,739	\$ —	\$ —	\$ 701,608
Investments with trustee (note 4)	—	6,318	33,601	3,969	18,369	—	3,280,386	—	—	3,342,643
Receivables (net of allowance for uncollectible amounts of \$26,380)	26,834	436	1,771	—	—	—	—	—	—	29,041
Property taxes and penalties	66,699	12,610	—	—	—	—	—	—	—	79,309
Other local taxes	16,499	19,487	—	1,633	17,650	—	—	—	—	55,269
Federal and state grants and subventions	4,919	95	—	—	66,174	29,547	—	—	—	100,735
Charges for services	2,814	1,032	578	249	15,251	—	149,100	—	—	169,024
Interest and other	67,477	32,854	312	6,820	8,667	11,161	941	—	—	128,232
Interfund receivables (note 11) ..	—	27,949	—	6,727	—	—	—	—	—	34,676
Loans receivable	423	21	—	—	25,209	118	—	—	—	25,771
Inventories	—	—	—	—	—	—	—	—	—	—
Restricted assets										
Deposits and investments (note 4)	—	—	—	—	309,701	—	—	—	—	309,701
Investments with trustee (note 4)	—	—	—	—	161,196	—	—	—	—	161,196
Grants and other receivables	—	—	—	—	37,440	—	—	—	—	37,440
Property held for resale and/or lease (note 10)	—	—	—	84,279	—	—	—	—	—	84,279
Fixed assets (net of accumulated depreciation in proprietary fund types) (note 6)	—	—	—	—	2,538,327	5,245	—	802,106	—	3,345,678
Deferred charges and other assets	261	14,848	—	—	4,651	—	736	—	—	20,496
Amount available in Debt Service Funds	—	—	—	—	—	—	—	—	34,709	34,709
Amount to be provided for long-term obligations	—	—	—	—	—	—	—	—	264,115	264,115
Total assets	\$195,043	\$216,359	\$38,591	\$229,691	\$3,518,812	\$49,594	\$3,574,902	\$802,106	\$298,824	\$8,923,922

See accompanying notes to combined financial statements.

(Continued)



CITY AND COUNTY OF SAN FRANCISCO

Combined Balance Sheet—All Fund Types and Account Groups— (Continued)
June 30, 1988

(In Thousands)

LIABILITIES

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise (note 9)	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
Accounts payable	\$ 11,482	\$ 8,991	\$ —	\$ 6,460	\$ 47,656	\$ 1,742	\$ 2,047	\$ —	\$ —	\$ 78,378
Accrued payroll	31,172	6,837	—	—	23,476	1,087	221	—	—	62,793
Accrued vacation and sick leave pay	24,159	—	—	327	38,970	—	336	—	47,511	111,303
Accrued workers' compensation	—	—	—	—	21,521	66,263	—	—	—	87,784
Estimated claims payable (notes 7 and 12)	14,602	—	—	—	21,124	—	—	—	41,984	77,710
Deferred tax, grant and subvention revenues	28,531	7,290	—	—	—	—	493	—	—	36,314
Interfund payables (note 11)	19,451	35,620	1,590	15,141	44,215	5,255	6,960	—	—	128,232
Agency obligations										
School and College Districts	—	—	—	—	—	—	78,598	—	—	78,598
Other	—	—	—	—	—	—	94,825	—	—	94,825
Deferred revenue, loans and other liabilities	2,109	39,425	2,292	5,390	42,938	—	162,998	—	421	255,573
Bond interest payable	—	—	—	—	14,696	—	—	—	—	14,696
Bonds and capital leases payable (notes 7 and 12)	—	—	—	—	921,925	1,861	—	—	208,908	1,132,694
Liabilities payable from restricted assets	—	—	—	—	25,716	—	—	—	—	25,716
Total liabilities	131,506	98,163	3,882	27,318	1,202,237	76,208	346,478	—	298,824	2,184,616

FUND EQUITY

Contributed capital, net	—	—	—	—	1,245,531	5,026	—	—	—	1,250,557
Investment in general fixed assets	—	—	—	—	—	—	—	802,106	—	802,106
Retained earnings										
Reserved	—	—	—	—	—	4,433	—	—	—	4,433
Unreserved (deficit)	—	—	—	—	1,071,044	(36,073)	—	—	—	1,034,971
Fund balances										
Reserved for employees' retirement/health benefits	—	—	—	—	—	—	3,222,519	—	—	3,222,519
Reserved by charter for cash requirements	39,905	—	—	—	—	—	—	—	—	39,905
Reserved by charter for emergencies	3,862	—	—	—	—	—	—	—	—	3,862
Reserved for inventory type assets not available for appropriation	1,209	3,507	—	—	—	—	365	—	—	5,081
Reserved for property held for sale and/or lease (note 10)	—	—	—	84,279	—	—	—	—	—	84,279
Reserved for debt service	—	—	34,709	—	—	—	—	—	—	34,709
Reserved for encumbrances	25,549	13,271	—	26,856	—	—	—	—	—	65,676
Reserved for appropriation carryforward	19,972	38,695	—	59,489	—	—	1,392	—	—	119,548
Reserved for subsequent years budgets	1,604	—	—	—	—	—	—	—	—	1,604
Unreserved—undesignated	(28,564)	62,723	—	31,749	—	—	4,148	—	—	70,056
Total fund equity	63,537	118,196	34,709	202,373	2,316,575	(26,614)	3,228,424	802,106	—	6,739,306
Total liabilities and fund equity	\$195,043	\$216,359	\$38,591	\$229,691	\$3,518,812	\$49,594	\$3,574,902	\$802,106	\$298,824	\$8,923,922

See accompanying notes to combined financial statements.

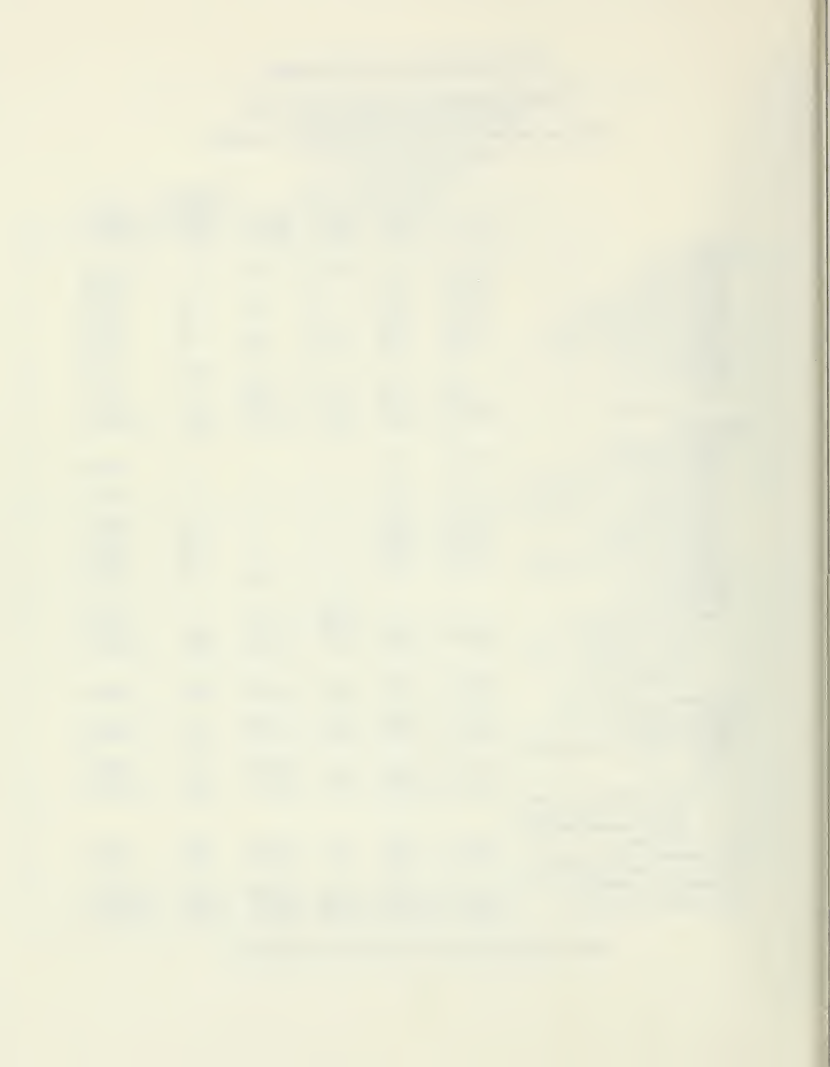


CITY AND COUNTY OF SAN FRANCISCO

**Combined Statement of Revenues, Expenditures
and Changes in Fund Balances—
All Governmental Fund Types and Expendable Trust Funds
Year ended June 30, 1988
(In Thousands)**

	Governmental Fund Types				Fiduciary Fund Type	Total (Memoran- dum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Property taxes	\$349,912	\$ 9,903	\$22,379	\$ 5,731	\$ —	\$ 387,925
Business taxes	120,055	—	—	—	—	120,055
Other local taxes	168,013	50,684	—	—	—	218,697
Grants and subventions	264,416	64,654	443	707	1,185	331,405
Licenses, fines and penalties	44,898	369	—	—	—	45,267
Interest and investment earnings	17,547	5,841	2,360	1,509	574	27,831
Charges for services	52,446	43,346	1,290	—	7	97,089
Contributions	—	—	—	—	1,831	1,831
Land sales proceeds	—	—	—	14,371	—	14,371
Other	4,102	4,128	3,172	4,342	—	15,744
Total revenues	<u>1,021,389</u>	<u>178,925</u>	<u>29,644</u>	<u>26,660</u>	<u>3,597</u>	<u>1,260,215</u>
Expenditures:						
Operating expenditures:						
Public protection	412,872	6,137	—	—	67	419,076
Public works, transportation and commerce	32,187	34,237	—	—	11	66,435
Human welfare and neighborhood development	205,325	29,802	—	—	24	235,151
Community health	119,108	13,397	—	—	1,270	133,775
Culture and recreation	60,105	40,405	—	—	137	100,647
General administration and finance	105,258	19,857	—	—	320	125,435
Capital outlay	—	—	—	47,662	—	47,662
Debt service:						
Principal retirement	—	—	17,525	—	—	17,525
Interest and fiscal charges	—	—	13,776	—	—	13,776
Total expenditures	<u>934,855</u>	<u>143,835</u>	<u>31,301</u>	<u>47,662</u>	<u>1,829</u>	<u>1,159,482</u>
Excess (deficiency) of reve- nues over (under)						
expenditures	<u>86,534</u>	<u>35,090</u>	<u>(1,657)</u>	<u>(21,002)</u>	<u>1,768</u>	<u>100,733</u>
Other financing sources (uses):						
Operating transfers in	72,301	31,866	20,194	47,758	—	172,119
Operating transfers out	(204,119)	(58,914)	(17,830)	(11,075)	(1,370)	(293,308)
General obligation bond proceeds (net)	—	—	—	29,364	—	29,364
	<u>(131,818)</u>	<u>(27,048)</u>	<u>2,364</u>	<u>66,047</u>	<u>(1,370)</u>	<u>(91,825)</u>
Excess (deficiency) of reve- nues and other sources over (under) expenditures and other uses	(45,284)	8,042	707	45,045	398	8,908
Fund balances at beginning of year	108,714	109,031	34,002	173,376	5,490	430,613
Net change in reserve for assets not available for appropriation	107	1,123	—	(16,048)	17	(14,801)
Fund balances at end of year	<u>\$ 63,537</u>	<u>\$118,196</u>	<u>\$34,709</u>	<u>\$202,373</u>	<u>\$5,905</u>	<u>\$ 424,720</u>

See accompanying notes to combined financial statements.



CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balances—Budget and Actual— General and Special Revenue Fund Types—Budget Basis (note 3)

Year ended June 30, 1988

(In Thousands)

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance— Favorable (Unfavorable)	Revised Budget	Actual	Variance— Favorable (Unfavorable)
Revenues.						
Property taxes	\$ 355,684	\$ 349,233	\$ (6,451)	\$ 9,580	\$ 9,839	\$ 259
Business taxes	122,160	120,642	(1,518)	—	—	—
Other local taxes	173,237	168,035	(5,202)	51,527	50,639	(888)
Grants and subventions	266,919	260,879	(6,040)	14,916	15,073	157
Licenses, fines and penalties	44,631	44,899	268	530	339	(191)
Interest and investment earnings	23,350	17,541	(5,809)	5,143	4,582	(561)
Charges for services	55,879	53,645	(2,234)	26,997	26,507	(490)
Other	7,308	6,302	(1,006)	914	1,198	284
Total revenues	<u>1,049,168</u>	<u>1,021,176</u>	<u>(27,992)</u>	<u>109,607</u>	<u>108,177</u>	<u>(1,430)</u>
Expenditures and encumbrances.						
Public protection	421,585	415,012	6,573	811	811	—
Public works, transportation and commerce	33,672	31,847	1,825	30,079	28,665	1,414
Human welfare and neighborhood development	216,073	208,826	7,247	6,346	6,344	2
Community health	124,536	121,219	3,317	191	191	—
Culture and recreation	62,134	60,341	1,793	45,746	42,776	2,970
General administration and finance	109,478	100,007	9,471	15,363	15,355	8
Total expenditures and encumbrances	<u>967,478</u>	<u>937,252</u>	<u>30,226</u>	<u>98,536</u>	<u>94,142</u>	<u>4,394</u>
Excess of revenues over expenditures and encumbrances	<u>81,690</u>	<u>83,924</u>	<u>2,234</u>	<u>11,071</u>	<u>14,035</u>	<u>2,964</u>
Other financing sources (uses):						
Operating transfers in	71,513	72,294	781	45,821	48,093	2,272
Operating transfers out	(205,317)	(204,119)	1,198	(67,583)	(65,255)	2,328
	<u>(133,804)</u>	<u>(131,825)</u>	<u>1,979</u>	<u>(21,762)</u>	<u>(17,162)</u>	<u>4,600</u>
Excess (deficiency) of revenues and other sources over (under) expenditures, encumbrances and other uses	(52,114)	(47,901)	4,213	(10,691)	(3,127)	7,564
Fund balances at beginning of year	124,471	124,471	—	79,638	79,638	—
Amounts budgeted in prior years	—	4,237	4,237	—	1,019	1,019
Fund balances at end of year	<u>\$ 72,357</u>	<u>\$ 80,807</u>	<u>\$ 8,450</u>	<u>\$ 68,947</u>	<u>\$ 77,530</u>	<u>\$ 8,583</u>

See accompanying notes to combined financial statements.

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CITY AND COUNTY OF SAN FRANCISCO
Combined Statement of Revenues, Expenses and Changes
in Retained Earnings/Fund Equity—
All Proprietary Fund Types and Similar Trust Funds

Year ended June 30, 1988

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only)
	Enterprise (note 9)	Internal Service	Pension Trust	Nonexpendable Trust	
Operating revenues:					
Charges for services	\$ 509,542	\$ 60,970	\$ —	\$ —	\$ 570,512
Rent and concessions	90,725	—	—	—	90,725
Contributions	—	—	282,166	73,631	355,797
Income from investments	—	—	222,325	921	223,246
Other	8,377	—	—	—	8,377
Total operating revenues	<u>608,644</u>	<u>60,970</u>	<u>504,491</u>	<u>74,552</u>	<u>1,248,657</u>
Operating expenses:					
Personal services	443,751	15,196	—	—	458,947
Contractual services	99,811	66,728	—	43,589	210,128
Light, heat and power	66,682	—	—	—	66,682
Materials and supplies	57,744	4,240	—	—	61,984
Depreciation	80,409	2,742	—	—	83,151
General and administrative	—	—	3,245	—	3,245
Services provided by other departments	48,207	634	—	—	48,841
Benefit payments	—	—	177,472	31,802	209,274
Other	36,811	—	—	—	36,811
Total operating expenses	<u>833,415</u>	<u>89,540</u>	<u>180,717</u>	<u>75,391</u>	<u>1,179,063</u>
Operating income (loss)	<u>(224,771)</u>	<u>(28,570)</u>	<u>323,774</u>	<u>(839)</u>	<u>69,594</u>
Non-operating revenues (expenses):					
Operating grants:					
Federal	8,121	—	—	—	8,121
State	68,038	—	—	—	68,038
Interest income	40,431	—	—	—	40,431
Interest expense	(41,910)	—	—	—	(41,910)
Other, net	21,483	—	(165)	—	21,318
	<u>96,163</u>	<u>—</u>	<u>(165)</u>	<u>—</u>	<u>95,998</u>
Income (loss) before operating transfers	<u>(128,608)</u>	<u>(28,570)</u>	<u>323,609</u>	<u>(839)</u>	<u>165,592</u>
Operating transfers in	186,751	—	—	—	186,751
Operating transfers out	(65,562)	—	—	—	(65,562)
	<u>121,189</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>121,189</u>
Net income (loss) before extraordinary items	(7,419)	(28,570)	323,609	(839)	286,781
Extraordinary items	35,952	—	—	—	35,952
Net income (loss)	<u>28,533</u>	<u>(28,570)</u>	<u>323,609</u>	<u>(839)</u>	<u>322,733</u>
Depreciation on fixed assets purchased with externally restricted sources that reduces contributed capital	33,353	545	—	—	33,898
Retained earnings (deficit) /fund equity at beginning of year	<u>1,009,158</u>	<u>(3,615)</u>	<u>2,897,527</u>	<u>2,222</u>	<u>3,905,292</u>
Retained earnings (deficit) /fund equity at end of year	<u>\$1,071,044</u>	<u>\$(31,640)</u>	<u>\$3,221,136</u>	<u>\$ 1,383</u>	<u>\$4,261,923</u>

See accompanying notes to combined financial statements.



CITY AND COUNTY OF SAN FRANCISCO

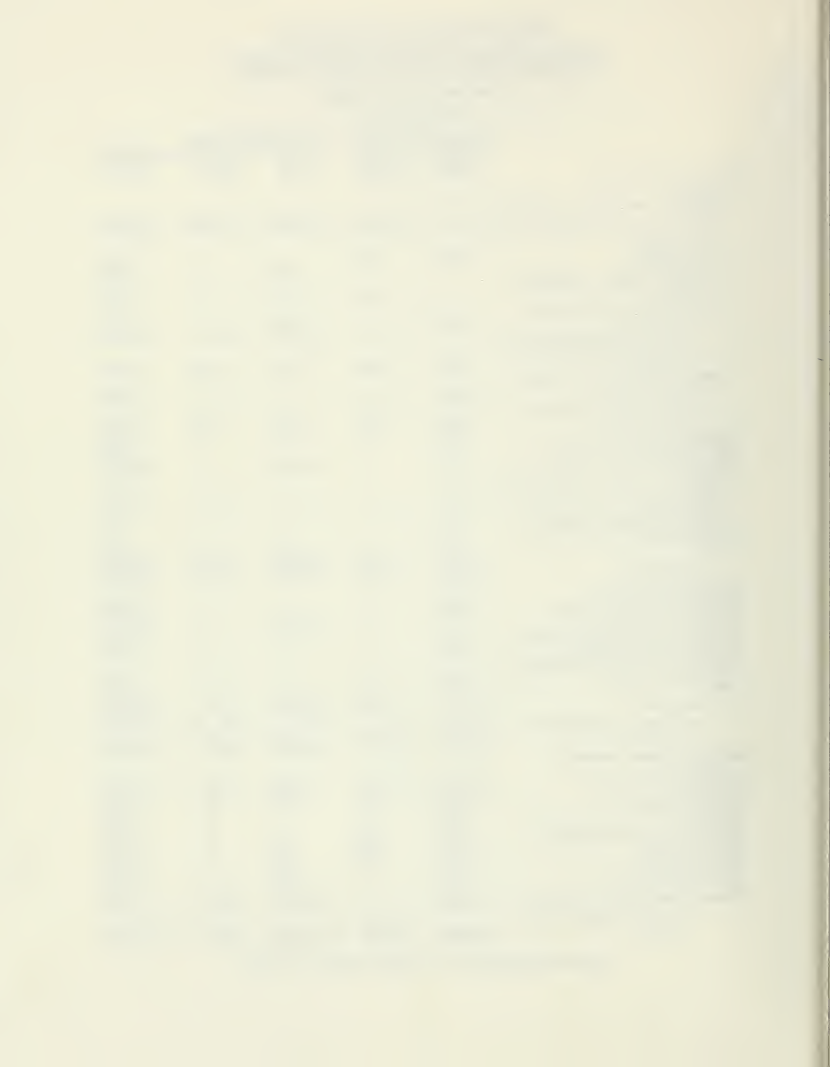
Combined Statement of Changes in Financial Position—
All Proprietary Fund Types and Similar Trust Funds

Year ended June 30, 1988

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only)
	Enterprise (note 9)	Internal Service	Pension Trust	Nonexpendable Trust	
Sources of working capital					
Operations:					
Net income (loss) before extraordinary items	\$ (7,419)	\$(28,570)	\$ 323,609	\$ (839)	\$ 286,781
Items not requiring (providing) working capital:					
Depreciation	80,409	2,742	—	—	83,151
Equity earnings	—	—	(3,051)	—	(3,051)
Change in workers' compensation liability	—	39,917	—	—	39,917
(Gain) loss on sale of fixed and other assets	(13,298)	—	(28,874)	—	(42,172)
Working capital provided (used) by operations before extraordinary items	59,692	14,089	291,684	(839)	364,626
Working capital provided (used) by extraordinary items	35,952	—	—	—	35,952
Working capital provided (used) by operations	95,644	14,089	291,684	(839)	400,578
Capital grants	45,056	—	—	—	45,056
Net decrease in restricted assets	42,756	—	—	—	42,756
Sale of investments	—	—	6,370,226	—	6,370,226
Proceeds from issuance of bonds (net of discount)	104,389	—	—	—	104,389
Proceeds from sale of fixed assets and lease termination	8,874	—	—	—	8,874
Net increase in liabilities payable from restricted assets	956	—	—	—	956
Other	9,676	11	19,837	—	29,524
Total sources	307,351	14,100	6,681,747	(839)	7,002,359
Uses of working capital					
Acquisition of fixed assets	154,542	—	—	—	154,542
Net increase of restricted assets	29,515	—	—	—	29,515
Purchase of investments	—	—	6,721,713	—	6,721,713
Retirement of general obligation bonds	11,540	—	—	—	11,540
Retirement of revenue bonds	117,021	—	—	—	117,021
Net decrease in other liabilities payable from restricted assets	27,468	—	—	—	27,468
Other	1,331	278	—	—	1,609
Total uses	341,417	278	6,721,713	—	7,063,408
Net increase (decrease) in working capital	\$(34,066)	\$ 13,822	\$ (39,966)	\$ (839)	\$ (61,049)
Elements of increase (decrease) in working capital:					
Deposits and investments	\$ (4,722)	\$ 978	7,465	\$ 508	\$ 4,229
Receivables, net	(36,090)	11,399	(76,329)	219	(100,801)
Interfund receivables	(5,279)	1,673	(1)	179	(3,428)
Inventories	1,893	—	—	—	1,893
Deferred charges and other assets	(17,665)	(443)	—	—	(18,108)
Accounts payable	5,470	(233)	(39)	—	5,198
Accrued payroll	(2,965)	448	(134)	—	(2,651)
Interfund payables	31,314	—	(328)	—	30,986
Bond interest payable	(56)	—	—	—	(56)
Deferred revenue and other liabilities	(5,966)	—	29,400	(1,745)	21,689
Net increase (decrease) in working capital	\$(34,066)	\$ 13,822	\$ (39,966)	\$ (839)	\$ (61,049)

See accompanying notes to combined financial statements



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 1988

(1) Definition of Reporting Entity

San Francisco is a city and county chartered by the State of California, and as such can exercise the powers of both a city and a county under state law.

The City and County of San Francisco (the City) has defined its reporting entity in accordance with the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100, which sets forth the scope of public service and the exercise of oversight responsibility of a government's elected officials as the basic criteria for inclusion of a governmental unit in a governmental reporting entity, i.e. the City's ability to significantly influence operations, select the governing authority, designate management, and participate in fiscal management. Sections 2100 and 2600 set forth criteria to be used in determining how individual governmental unit data should be presented by the component units of the reporting entity.

The combined financial statements present financial information on activities of the City for which the Mayor and Board of Supervisors have oversight responsibility, and include: the operations of the Office of the Controller; the enterprise operations of the San Francisco International Airport, the San Francisco General Hospital Medical Center, the Laguna Honda Hospital, the Port of San Francisco, the Clean Water Program, the Water Department/Hetch Hetchy Project, and the Municipal Railway and Municipal Railway Improvement Corporation; the operations of nine nonprofit corporations associated with the City; the operations of the San Francisco Redevelopment Agency; and the operations of the Employees' Retirement System and Health Service System. Long-term leases between the oversight unit and component units for facilities financed by lease revenue bonds are eliminated for the combined financial statements.

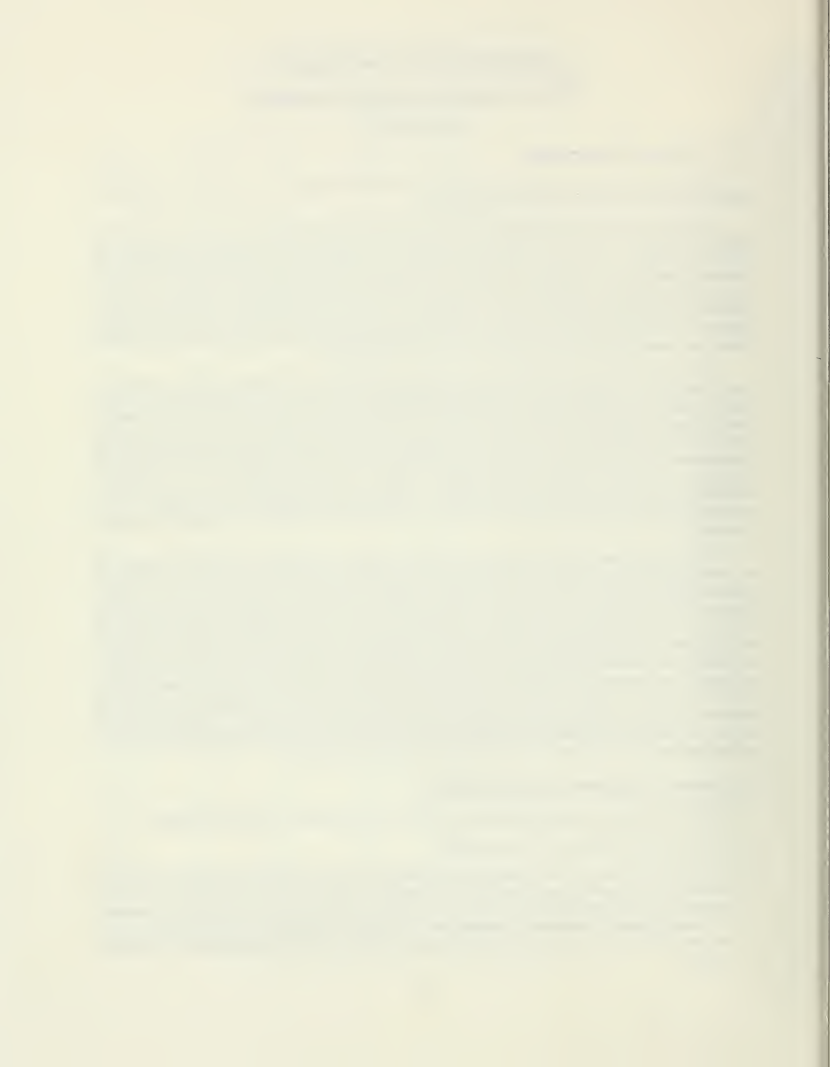
The City's combined financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The Housing Authority is not included as a component unit because it is not within the oversight responsibility of the City: it is not included under the City Charter, it is not subject to the financial controls of the Controller or the budgetary controls of the Mayor and the Board of Supervisors except in a review capacity, and there is minimal financial interdependency. The Private Industry Council of San Francisco is not included as a component unit because it is not within the oversight responsibility of the City: it is not included under the City Charter, it is not subject to the financial controls of the Controller or the budgetary controls of the Mayor and the Board of Supervisors, and there is minimal financial interdependency. The School and the Community College Districts are not included because they have their own elected governing boards and are independent of the City as to fiscal accountability and financial affairs.

(2) Summary of Significant Accounting Policies

The more significant accounting policies of the City are described in the following sections.

(a) Basis of Presentation—Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The various funds are summarized by type in the financial statements. Fund types and account groups used by the City are described in the following sections.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Governmental Fund Types

General Fund—The General Fund, the general operating fund of the City, accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds—Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds—Debt Service Funds account for the accumulation of resources for, and the payment of long-term obligation principal, interest and related costs.

Capital Projects Funds—Capital Projects Funds account for financial resources used for the acquisition or construction of major capital facilities (other than those financed in the proprietary fund types).

Proprietary Fund Types

Enterprise Funds—Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the Board of Supervisors has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds—Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or other governmental units on a cost reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds—Trust and Agency Funds account for assets held by the City as a trustee or as an agent for individuals, private organizations, other governmental units and/or other funds. These include the pension trust fund (Employees' Retirement System), nonexpendable trust fund (Health Service System), expendable trust funds and agency funds. Operations of the pension trust and nonexpendable trust funds are accounted for in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group—The General Fixed Assets Account Group accounts for fixed assets of the City, other than those accounted for in the proprietary fund types.

General Long-Term Obligations Account Group—The General Long-Term Obligations Account Group accounts for all long-term obligations of the City, including claim liabilities and vested vacation and sick leave pay, except those accounted for in the proprietary fund types.

(b) Basis of Accounting

The modified accrual basis of accounting is followed in the governmental fund types and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Expenditures, other than interest on long-term obligations that is recorded when paid, are recorded when they are expected to be liquidated with expendable available resources.

Intergovernmental revenues (primarily grants and subventions), which are received as reimbursement for specific purposes or projects, are recognized based upon the expenditures recorded. Intergovernmental revenues which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

The City collects an annual taxpayer-assessed business tax based either on gross receipts or on payroll for each calendar year. The City bills taxpayers each June for one-half of the previous year's actual taxes. This amount is due on July 1 and delinquent after July 31. The remaining amount is due January 1 and is delinquent after February 28. The City accrues as revenues the amount of the June billing expected to be collected within 60 days of the end of its fiscal year, which is a significant portion of the amount billed.

Licenses, fines and penalties and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Investment earnings are accrued since they are measurable and available.

See note 5 for the City's property tax accrual policy.

The accrual basis of accounting is utilized in the proprietary fund types and pension trust and nonexpendable trust funds. Water and power services furnished to customers are recognized as revenue when billed.

(c) Measurement Focus

All governmental fund types are accounted for on a spending or funds flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Resources not available to finance expenditures or commitments of the current period are recognized as deferred revenue. Claim liabilities and vested vacation and sick leave pay which will not be currently liquidated using expendable financial resources are shown in the General Long-Term Obligations Account Group.

All proprietary fund types are accounted for on a capital maintenance measurement focus based upon net income, financial position and changes in financial position in a manner similar to a commercial enterprise.

(d) Budgetary Data

The budget of the City is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The following procedures establish the budgetary data reflected in the financial statements:

Original Budget

- (1) The Mayor conducts hearings to obtain public comment on the proposed annual budget



NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(2) Prior to June 1, the Mayor submits the proposed budget to the Board of Supervisors. The Board then adopts an interim budget.

(3) The Board of Supervisors conducts hearings to obtain public comment on the budget.

(4) Prior to September 15, the Board of Supervisors finalizes the annual budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

Revised Budget

The revised budgetary data presented in the financial statements reflects the following changes to the original budget:

(1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after approval by the Controller, Mayor and Board of Supervisors. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the revised budgetary data. Appropriations carried forward to the subsequent year are excluded. Historically, appropriations carried forward have ultimately resulted in expenditures.

(2) Appropriations may be adjusted during the year with the approval of the Mayor and Board of Supervisors. Additionally, the Controller is authorized to make transfers of excess appropriations within a department. Such adjustments are reflected in the revised budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make transfers of excess appropriations within departments. Accordingly, the lowest level of budgetary control by the Board of Supervisors is the department level.

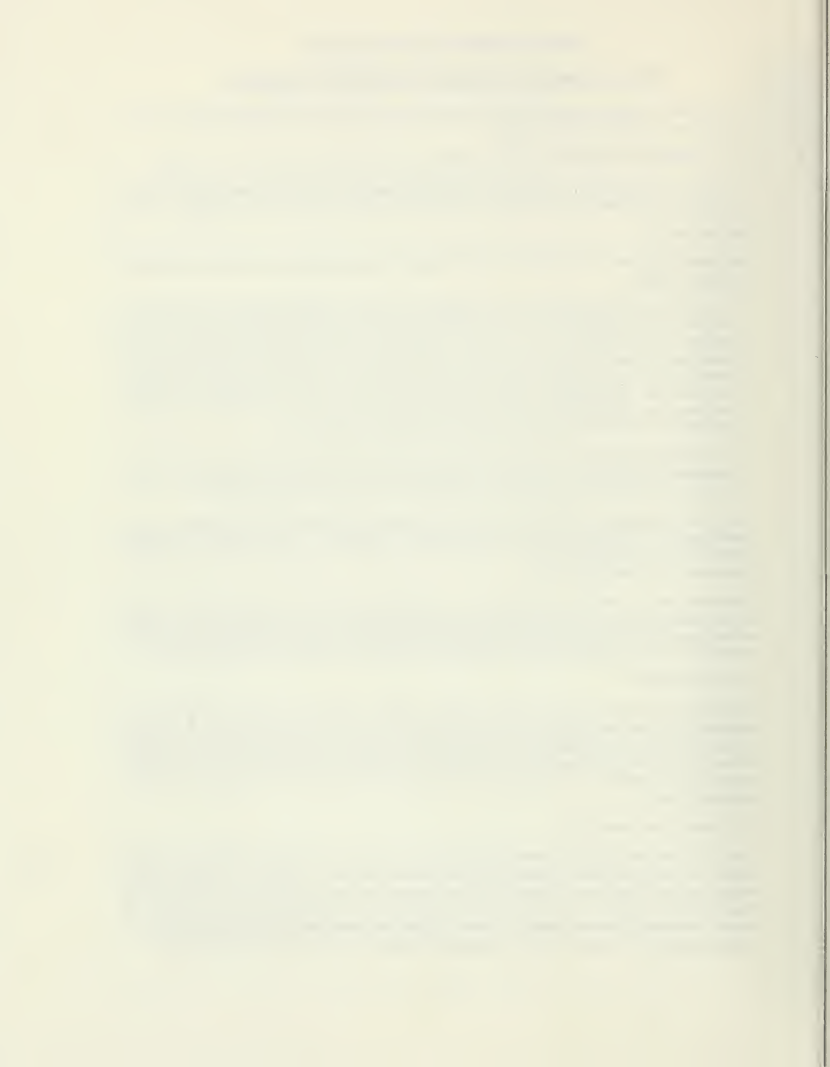
Budgetary data, as revised, are presented in the financial statements for the General Fund and certain Special Revenue Funds. Federal and state grant Special Revenue Funds and certain projects are budgeted by the Mayor and Board of Supervisors over the term of the individual grant or project. Since they are not budgeted on an annual basis, they are not included in the budgetary data.

(e) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded to reserve that portion of the applicable appropriation is employed in the governmental fund types and expendable trust funds as a significant aspect of budgetary control. Encumbrances are reported as reservations of fund balances because they do not constitute expenditures or liabilities. Encumbrances are combined with expenditures for budgetary comparison purposes (note 3).

(f) Deposits and Investments

The City follows the practice of pooling deposits and investments of all funds with the City Treasurer except for restricted funds generally held by outside agents on behalf of enterprise funds, investments of the Employees' Retirement System held by trustees, deposits and investments of the Redevelopment Agency and certain nonprofit corporation funds, and imprest funds (note 4). The method of allocating interest earned on pooled deposits and investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Deposits and investments are stated at cost or amortized cost, except for assets of the deferred compensation plans which are presented at market value.

The Treasurer holds deposits of the School District and Community College District as part of the City's pooled funds. The deposits held for these districts are included in agency funds.

(g) *Inventory*

Inventory is generally valued at average cost. Inventory in the General Fund consists of expendable supplies held for consumption. The purchase method is used with cost recorded as an expenditure at the time an individual inventory item is purchased. A reserve equal to the amount of inventory indicates that a portion of the fund balance is not available for future appropriation.

(h) *Interfund Transfers*

Interfund transfers are generally recorded as operating transfers in (out) except for the following types of transactions:

- (1) Charges for services, which are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as unbilled receivables at the end of the fiscal year.
- (2) Reimbursements for services performed, which are recorded as a reduction of expenditure in the performing fund, and an expenditure of the requesting fund.
- (3) Residual equity transfers.

(i) *General Fixed Assets*

General fixed assets are those acquired for general governmental purposes. Such assets currently purchased or constructed are recorded as expenditures in the governmental fund types and capitalized at cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the time received. Certain assets for which actual costs are not available have been valued on the basis of a professional valuation that determined their approximate historical cost.

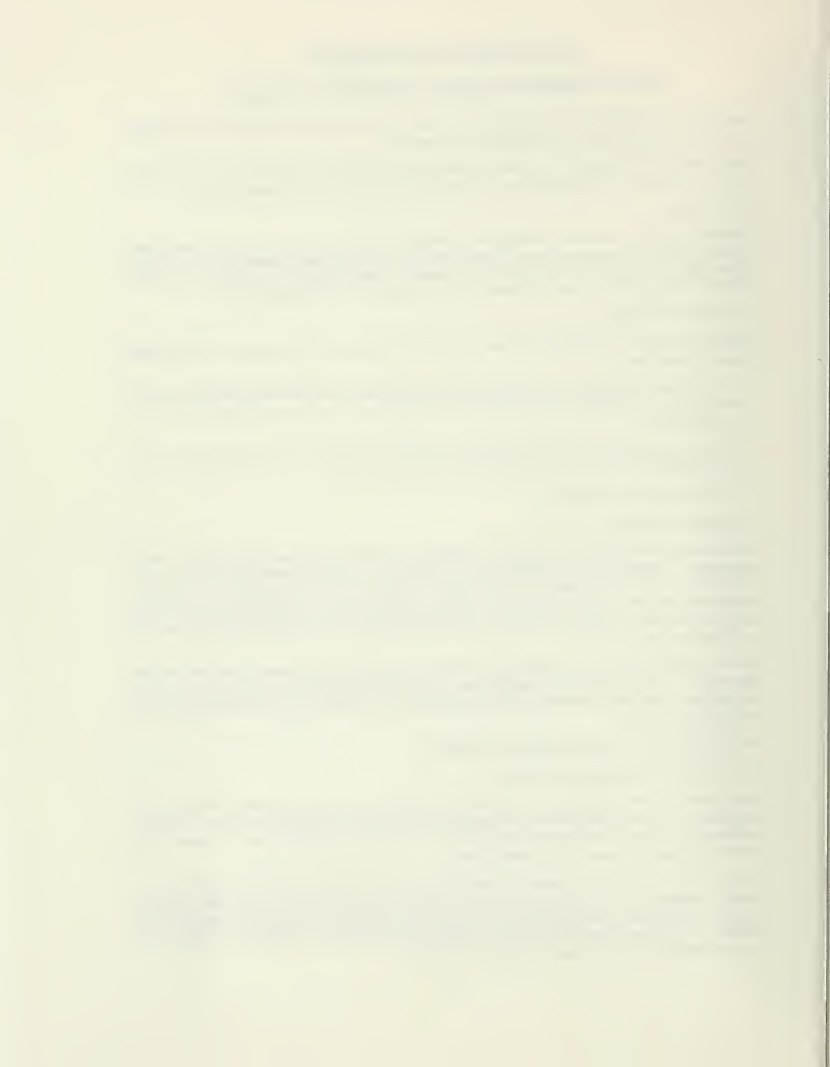
The City's infrastructure, which consists of certain non-enterprise improvements that have not been capitalized, is not included in the General Fixed Assets Account Group. Examples are roads, curbs and gutters, streets and sidewalks and lighting systems. Such assets are normally immovable and of value only to the City.

No depreciation is provided on general fixed assets.

(j) *Fixed Assets—Proprietary Fund Types*

Fixed assets of the proprietary fund types are stated at cost or estimated historical cost. Depreciation has been provided over estimated useful lives using the straight-line method. Depreciation related to certain fixed assets purchased with externally restricted sources is closed to the contributed capital accounts on an annual basis.

The net amount of interest expense on borrowing for capital projects and interest earnings on unspent proceeds is capitalized during the construction period on projects of the San Francisco Airport, the Port of San Francisco, the Water Department/Hetch Hetchy Project and the Clean Water Program. Net interest capitalized during the fiscal year increased construction in progress and reduced interest expense by approximately \$5.5 million.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(k) *Fund Equity*

Reservations of fund balances of the governmental fund types and the fiduciary fund type indicate that portion of fund equity which is not appropriable for expenditure or is legally segregated for a specific future use. The amount reserved by the Charter for emergencies may be appropriated only by a vote of three-fourths of the Board of Supervisors. The Charter also provides for a cash requirements reserve to meet potential short-term working capital needs.

Reservations of fund balance for inventory type assets not available for appropriation include reservations made for long-term interfund receivables, inventory and other assets not expected to be available for appropriation in the following year. Changes in inventory and similar assets are reported as changes in fund equity.

Fund balance amounts reserved for subsequent years' budgets have been set aside by Board of Supervisors' ordinance, but actual expenditure requires a subsequent specific appropriation.

Reservation of retained earnings of internal service funds recognizes contractual and other commitments which are not properly accruable, but represent future obligations of retained earnings.

(l) *Accrued Vacation and Sick Leave Pay*

Vacation pay, which may be accumulated up to ten weeks, is payable upon termination.

Sick leave may be accumulated up to six months. Unused amounts, accumulated prior to December 6, 1978, are vested and are payable upon termination of employment by retirement, disability caused by industrial accident or death. Sick leave earned subsequent to that date is nonvesting and, hence, is not a liability.

Vested vacation and sick leave pay are accrued for all fund types. Amounts expected to be liquidated with expendable available financial resources, which are estimated based on historical information, are accrued in the governmental fund types and the remainder is recorded in the General Long-Term Obligations Account Group.

(m) *Redevelopment Agency Property*

The Redevelopment Agency charges capital outlay for the full cost of developing and administering its projects. Property held for resale and/or lease, which is considered to be inventory, is recorded as an asset in the Capital Project Funds, with an equal amount recorded as a reservation of fund balance, at the lower of cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

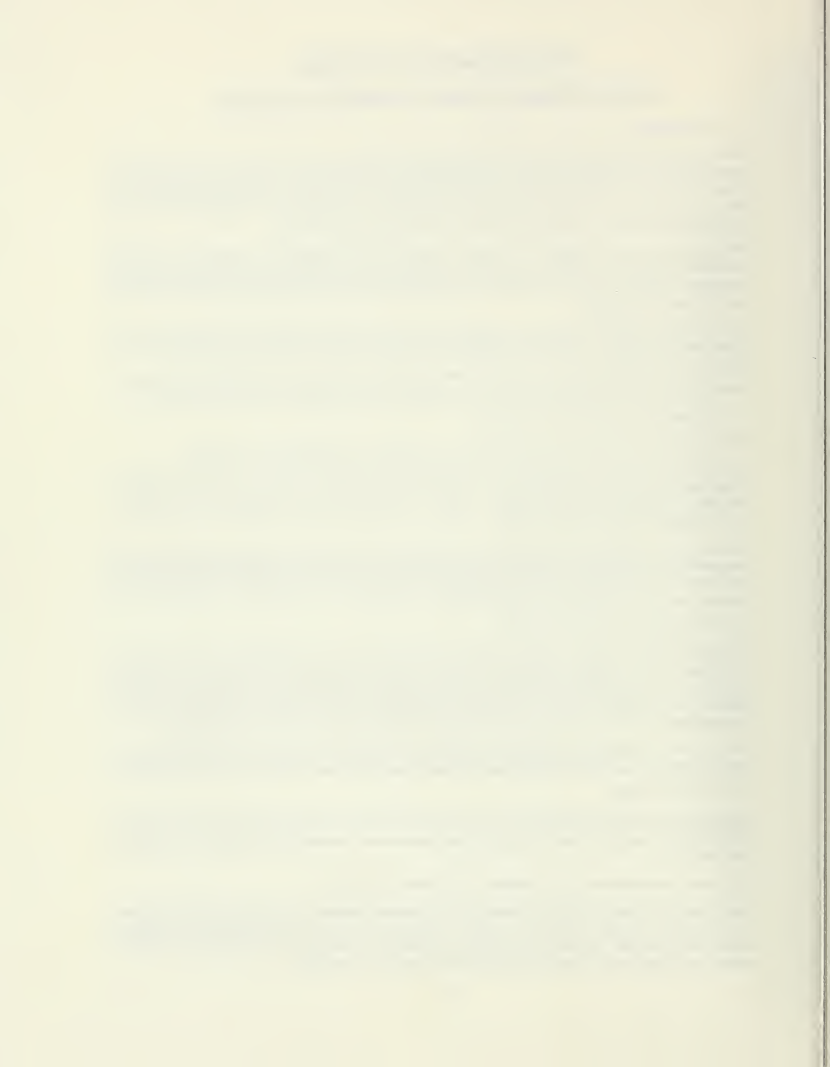
Property which has been or is intended to be leased on a long-term basis is recorded in the General Fixed Assets Account Group. South Beach Harbor fixed assets are included in an enterprise fund.

(n) *Loans Receivable*

Special Revenue Fund expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding. Loans receivable are recorded with an offset to a deferred loan account.

(o) *Total (Memorandum Only) Columns on Combined Statements*

Total columns on the combined statements are for overview information only. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor are such data comparable to a consolidation. Eliminations of interfund activity have been made within fund types but not between fund types.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(3) *Budgetary Results Reconciled to Results in Accordance with Generally Accepted Accounting Principles*

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The results of operations are presented in the budget-to-actual comparison statement in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis "actual" and GAAP basis are as follows:

(a) *Basis differences*

Certain accruals (claims and judgments, accrued vacation and sick leave pay and workers' compensation liability) are excluded from the Budget basis financial statement because such amounts are budgeted on a cash basis.

Inventory type assets not available for appropriation (such as supplies inventory) are excluded from the Budget basis fund balance because such amounts are considered to be expended.

(b) *Timing differences*

Encumbrances are recognized as the equivalent of expenditures in the budgetary financial statement, while encumbered amounts are not recognized on the GAAP basis until recorded as actual expenditures.

Revenues budgeted in prior years, which did not become susceptible to accrual until the current year, and adjustments to prior year encumbrances are recognized on the Budget basis as adjustments to beginning fund balance. Such revenues are recognized currently on the GAAP basis. Adjustments to prior year encumbrances do not affect the GAAP basis.

(c) *Entity difference*

Nonannually budgeted funds (such as certain grant funds) are excluded from the Budget basis financial statement because a comparison of such budgetary amounts to annual revenues and expenditures is not meaningful.

The results of "actual" operations on a Budget basis are reconciled to the results of operations on a GAAP basis as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Excess (deficiency) of revenues and other sources over (under) expenditures, encumbrances and other uses—Budget basis	\$(47,901)	\$(3,127)
Accruals excluded from Budget basis	(6,586)	63
Increase in current year's encumbrances	17,771	5,701
Expenditures which were encumbered in prior years	(12,805)	(2,914)
Amounts budgeted in prior years	4,237	1,019
Nonannually budgeted funds, net	—	7,300
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses—GAAP basis	<u>\$(45,284)</u>	<u>\$ 8,042</u>

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The fund balances on a Budget basis are reconciled to the fund balances on a GAAP basis as follows (in thousands):

	General Fund	Special Revenue Funds
Fund balance, June 30, 1988—Budget basis	\$ 80,807	\$ 77,530
Accruals excluded from Budget basis	(44,028)	—
Inventory type assets not available for appropriation	1,209	1,044
Fund balances of nonannually budgeted funds	—	29,135
Encumbrances, June 30, 1988	25,549	10,487
Fund balance, June 30, 1988—GAAP basis	<u>\$ 63,537</u>	<u>\$118,196</u>

General Fund Budget basis fund balance at June 30, 1988 is composed of the following (in thousands):

Reserved by charter for cash requirements	\$39,905
Reserved by charter for emergencies	3,862
Reserved for appropriation carryforward	19,972
Reserved for subsequent years' budgets	1,604
Designated by Controller for contingencies and prior year expenditures	<u>3,300</u>
Not available for appropriation	68,643
Available for appropriation	<u>12,164</u>
Fund balance, June 30, 1988—Budget basis	<u>\$80,807</u>

Amounts reserved for subsequent years' budgets are amounts which have been legally set aside pursuant to ordinance passed by the Board, but which require appropriation for specific items before they may be expended. The primary component of fund balance reserved for subsequent years' budgets at June 30, 1988 was \$1.2 million reserved for capital improvements.

(4) Deposits and Investments

The City's pooled deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. Pooled investments permitted by the City's investment policy are obligations of the U.S. government, commercial paper rated no lower than A-1 by Standard and Poor's Corporation or P-1 by Moody's Investors Service Inc., bankers' acceptances, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Pooled investments during the year did not include repurchase or reverse repurchase agreements. The Redevelopment Agency invests in repurchase agreements, but not in reverse repurchase agreements.

Other deposits and investments maintained outside the City Treasury are invested pursuant to governing bond covenants or California Government Code provisions. A substantial portion of these investments are assets of the Employees' Retirement System. The Charter authorizes the Retirement System to invest in corporate equity and debt securities and to make other investments as approved by the Retirement Board. In addition, City ordinances, with limited exceptions, prohibit deposits and

Date		Description		Amount	
1890	Jan 1	Balance		100.00	
	Feb 1	Interest		5.00	
	Mar 1	Interest		5.00	
	Apr 1	Interest		5.00	
	May 1	Interest		5.00	
	Jun 1	Interest		5.00	
	Jul 1	Interest		5.00	
	Aug 1	Interest		5.00	
	Sep 1	Interest		5.00	
	Oct 1	Interest		5.00	
	Nov 1	Interest		5.00	
	Dec 1	Interest		5.00	
1891	Jan 1	Balance		100.00	
	Feb 1	Interest		5.00	
	Mar 1	Interest		5.00	
	Apr 1	Interest		5.00	
	May 1	Interest		5.00	
	Jun 1	Interest		5.00	
	Jul 1	Interest		5.00	
	Aug 1	Interest		5.00	
	Sep 1	Interest		5.00	
	Oct 1	Interest		5.00	
	Nov 1	Interest		5.00	
	Dec 1	Interest		5.00	
1892	Jan 1	Balance		100.00	
	Feb 1	Interest		5.00	
	Mar 1	Interest		5.00	
	Apr 1	Interest		5.00	
	May 1	Interest		5.00	
	Jun 1	Interest		5.00	
	Jul 1	Interest		5.00	
	Aug 1	Interest		5.00	
	Sep 1	Interest		5.00	
	Oct 1	Interest		5.00	
	Nov 1	Interest		5.00	
	Dec 1	Interest		5.00	
1893	Jan 1	Balance		100.00	
	Feb 1	Interest		5.00	
	Mar 1	Interest		5.00	
	Apr 1	Interest		5.00	
	May 1	Interest		5.00	
	Jun 1	Interest		5.00	
	Jul 1	Interest		5.00	
	Aug 1	Interest		5.00	
	Sep 1	Interest		5.00	
	Oct 1	Interest		5.00	
	Nov 1	Interest		5.00	
	Dec 1	Interest		5.00	

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

investments with financial institutions having specified relations with either the government of South Africa or certain private entities doing business with or in South Africa.

Total City deposits and investments are as follows (in thousands):

Deposits and investments	\$ 701,608
Investments with trustee	3,342,643
Restricted assets:	
Deposits and investments	309,701
Investments with trustee	161,196
	<u>\$4,515,148</u>

Cash and Deposits

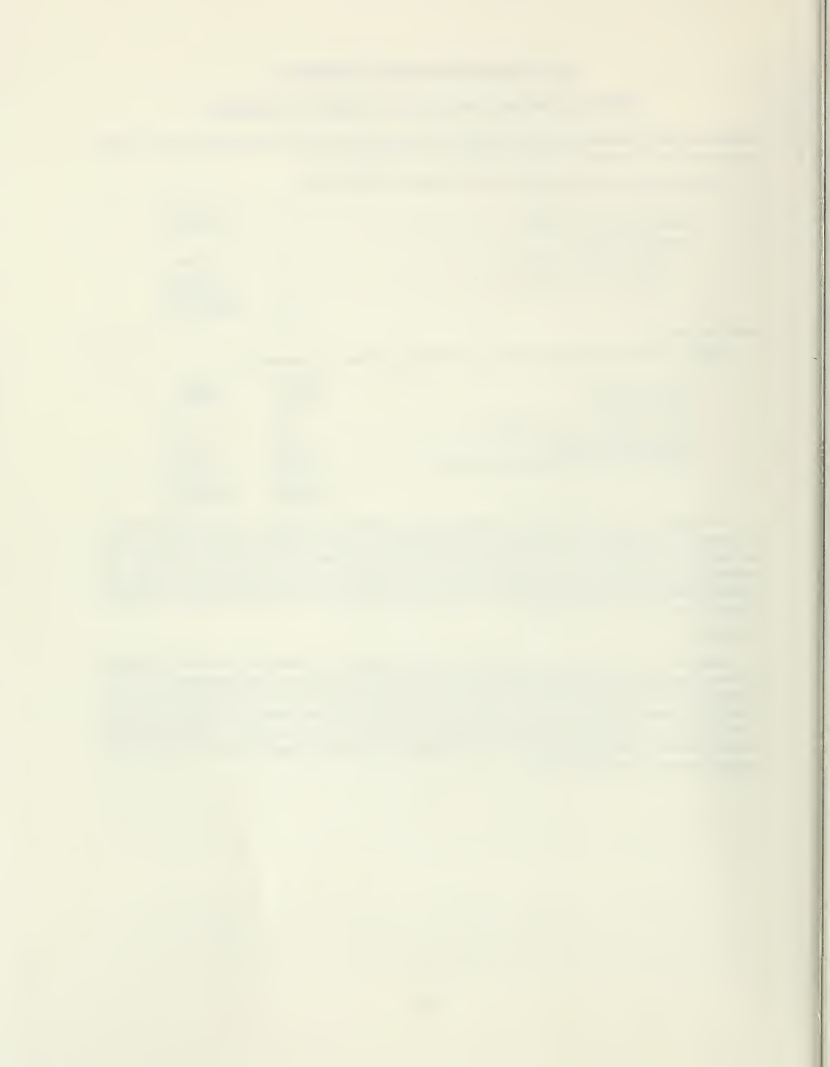
The City had cash and deposits at June 30, 1988 as follows (in thousands):

<u>Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash on hand	\$ 1,047	\$ —
Insured deposits (FDIC/FSLIC)	4,673	4,673
Collateralized deposits	307,203	340,415
Uninsured and uncollateralized deposits	4,675	4,675
	<u>\$317,598</u>	<u>\$349,763</u>

The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by federal deposit insurance by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank in the City's name. The uninsured and uncollateralized deposits are being held by trustees and have been pledged for repayment of debt of the Redevelopment Agency.

Investments

Investments of the City are summarized on the following page. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows: Category 1 includes investments that are insured or registered or securities held by the City or its agent in the City's name; Category 2 includes uninsured and unregistered investments, with the securities held by the broker's or dealer's trust department or agent in the City's name; Category 3 includes uninsured and unregistered investments, with the securities held by the broker or dealer, or by its trust department or agent but not in the City's name.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

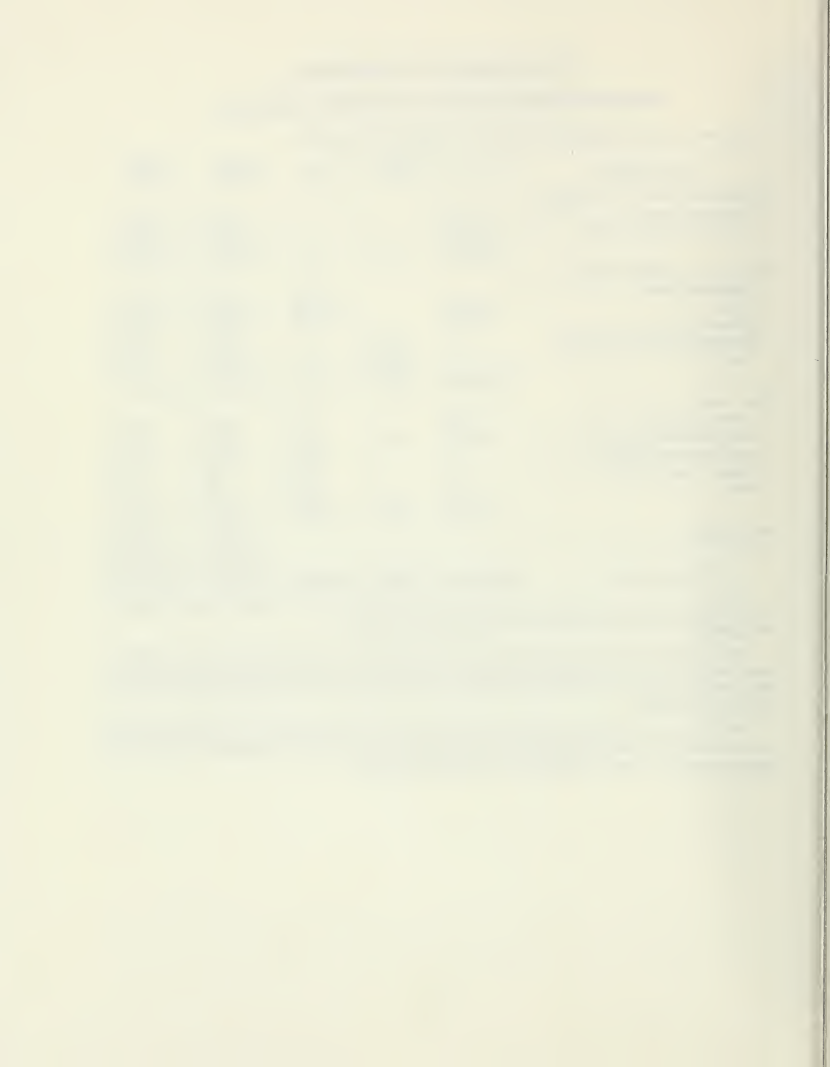
At June 30, 1988, investments included the following (in thousands):

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Pooled investments in City Treasury:					
Commercial paper	\$ 83,283	\$ —	\$ —	\$ 83,283	\$ 83,761
U.S. government securities	913,507	—	—	913,507	932,971
	<u>996,790</u>	<u>—</u>	<u>—</u>	<u>996,790</u>	<u>1,016,732</u>
Employees' Retirement System:					
Commercial paper	—	—	45,917	45,917	45,917
Bonds	1,327,900	—	467,482	1,795,382	1,782,182
Common stock	736,798	—	202,704	939,502	1,003,322
Real estate limited partnerships ..	—	90,380	—	90,380	115,602
Other	—	3,898	—	3,898	4,549
	<u>2,064,698</u>	<u>94,278</u>	<u>716,103</u>	<u>2,875,079</u>	<u>2,951,572</u>
Other funds:					
Commercial paper	3,858	—	167	4,025	4,024
U.S. government securities	105,126	46,713	46,560	198,399	196,279
Repurchase agreements	—	—	9,536	9,536	9,236
Bankers' acceptances	4,942	—	1,656	6,598	6,626
Other	—	—	400	400	400
	<u>113,926</u>	<u>46,713</u>	<u>58,319</u>	<u>218,958</u>	<u>216,565</u>
Mutual funds				<u>106,723</u>	<u>106,723</u>
				<u>325,681</u>	<u>323,288</u>
Total investments	<u>\$3,175,414</u>	<u>\$140,991</u>	<u>\$774,422</u>	<u>\$4,197,550</u>	<u>\$4,291,592</u>

Included in Other funds Category 3 investments is \$42.9 million which is held by trustees and has been pledged for repayment of debt of the Redevelopment Agency.

Market value fluctuates with interest rates, and increasing rates could cause market value to decline below carrying value. City management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the City from having to sell investments at below carrying value for that purpose.

The City Treasury's pooled investments have a market value of \$19.9 million (2.0%) above carrying value at June 30, 1988. The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for fiscal 1988 was 8.54%.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(5) Property Taxes

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. The property tax is levied as of July 1 on all taxable property located in the City, when it becomes a lien on real property. Secured property taxes are due in two equal installments on November 1 and February 1 and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or upon completion of construction. Property taxes levied are recorded initially as deferred revenue and receivables in the fiscal year of levy. Property taxes expected to be collected within 60 days of the end of the fiscal year are recorded as revenue.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year. The increase for 1987-88 was 2%.

The Proposition 13 limitations on general property taxes do not apply to taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). These taxes and related subventions amounted to approximately \$23.0 million for the year ended June 30, 1988, including interest and redemption charges for general obligation bonds of the Water Department/Hetch Hetchy Project of \$8.0 million. A like amount was transferred from the Water Department/Hetch Hetchy Project to the General Fund, as authorized by the voters in 1979.

Proposition 13 was amended in 1986 by Proposition 46 to allow property taxes in excess of the 1% limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters (notes 7 and 13).

Net taxable valuation for the year ended June 30, 1988 was approximately \$37.9 billion, an increase of 7.6% over the previous year. The tax rate was \$1.10 per \$100 of valuation (\$0.90 for general government; \$0.14 for schools, Bay Area Rapid Transit District (note 7), and Bay Area Air Quality Management District; and \$0.06 for the City's bond interest and redemption charges). Delinquencies for the year amounted to 3.0%.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(6) Fixed Assets

General

A summary of changes in general fixed assets follows (in thousands):

	Balance July 1, 1987	Additions	Transfers In / (Out)	Retirements	Balance June 30, 1988
Land	\$ 55,592	\$ 2,571	\$ —	\$ —	\$ 58,163
Facilities and improvements	523,983	44	20,854	—	544,881
Machinery and equipment	87,902	23,032	—	(148)	110,786
Construction in progress	47,280	31,900	(20,854)	—	58,326
Property held for lease	29,950	—	—	—	29,950
	<u>\$744,707</u>	<u>\$57,547</u>	<u>\$ —</u>	<u>\$ (148)</u>	<u>\$802,106</u>

Fixed assets with original acquisition cost of \$8.9 million are being acquired through capitalized leases. The remaining principal due on the leases is \$7.9 million (notes 7 and 12d).

Proprietary Funds

A summary of proprietary fund type fixed assets at June 30, 1988 follows (in thousands):

	Enterprise	Internal Service
Land	\$ 167,978	\$ —
Facilities and improvements	2,759,340	920
Machinery and equipment	329,434	17,211
	<u>3,256,752</u>	<u>18,131</u>
Less accumulated depreciation	896,307	12,886
	<u>2,360,445</u>	<u>5,245</u>
Construction in progress	177,882	—
	<u>\$2,538,327</u>	<u>\$ 5,245</u>

Useful lives of machinery and equipment are generally estimated to be 3 to 30 years, except for certain Laguna Honda Hospital equipment which has an estimated useful life of up to 40 years. Facilities and improvements are generally estimated to have useful lives from 5 to 50 years. Facilities and improvements include utility type assets of the Water Department/Hetch Hetchy Project and the Clean Water Program totaling \$1.225 million with lives from 50 to 100 years and \$107 million with lives from 101 to 160 years. These long-lived assets included reservoirs and aqueducts.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(7) Long-Term Obligations

The following is a summary of changes in General Long-Term Obligations for the year ended June 30, 1988 (in thousands):

	Balance July 1, 1987	Additional Obligations	Current Maturities, Retirements, and Net Decreases	Balance June 30, 1988
Bonds payable	\$187,545	\$31,000	\$17,525	\$201,020
Long-term loans	434	—	13	421
Capital leases payable (note 12) ...	—	7,888	—	7,888
Estimated claims payable (note 12) ...	26,668	15,316	—	41,984
Accrued vacation and sick leave pay	49,149	—	1,638	47,511
	<u>\$263,796</u>	<u>\$54,204</u>	<u>\$19,176</u>	<u>\$298,824</u>

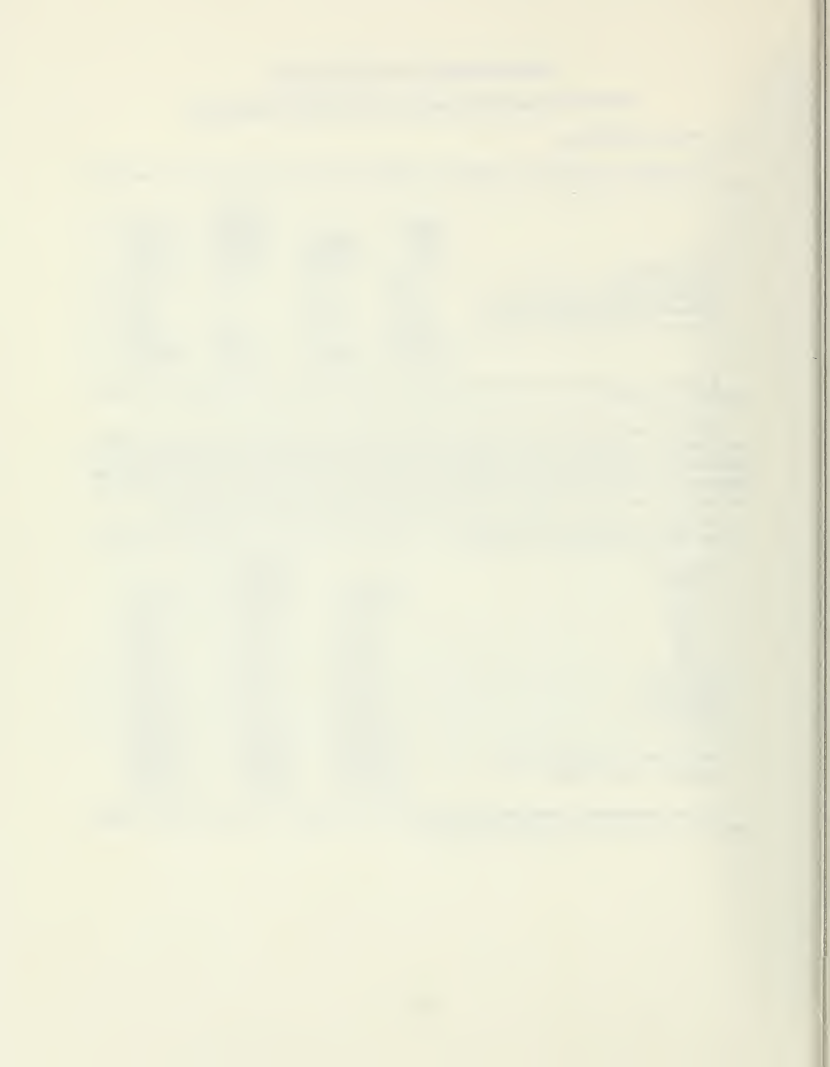
\$31 million of the \$46.2 million general obligation bonds authorized for fire fighting enhancements were sold in July 1987.

During the year voters approved additional general obligation bonds totaling \$189 million; \$99 million was approved in November 1987 to finance multi-purpose improvements for police facilities, street improvements, recreation and park facilities and psychiatric hospital facilities, and \$90 million was approved in June 1988 to finance improvements to school facilities. In July 1988 \$41 million of the multi-purpose bonds were sold. In August 1988 \$35 million of the school facility bonds were sold.

The annual requirements to amortize all bonds, capital leases and long-term loans outstanding as of June 30, 1988 are as follows (in thousands):

Year Ending June 30,	Enterprise	General Long-Term Obligations	Total
1989	\$ 92,241	\$ 23,759	\$ 116,000
1990	91,810	22,312	114,122
1991	90,010	38,251	128,261
1992	89,591	21,168	110,759
1993	91,149	20,952	112,101
1994-1998	441,621	86,750	528,371
1999-2003	397,813	71,194	469,007
Thereafter	666,460	80,611	747,071
	<u>1,960,695</u>	<u>364,997</u>	<u>2,325,692</u>
Less amounts representing interest	<u>1,038,770</u>	<u>155,668</u>	<u>1,194,438</u>
Liability at June 30, 1988	<u>\$ 921,925</u>	<u>\$209,329</u>	<u>\$1,131,254</u>

It is not practicable to determine the specific year for payment of estimated claims payable (note 12) or accrued vacation and sick leave pay.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Long-term obligations at June 30, 1988 are comprised of the following components (in thousands):

GENERAL LONG-TERM OBLIGATIONS

	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Schools.....	1995	5.0 to 6.25%	\$ 12,405
Fire protection.....	2008	4.9 to 7.6%	36,065
Parks and playgrounds.....	1995	5.0 to 7.6%	5,685
Boulevards and roads.....	1999	4.0 to 6.0%	4,095
NONPROFIT CORPORATION AND GARAGE LEASE REVENUE BONDS:			
San Francisco Stadium, Inc. (Candlestick Park) (b).....	1999	4.75 to 5.25%	15,140
San Francisco Social Services Corporation (c).....	2003	6.25 to 6.6%	8,550
San Francisco Civic Plaza Parking Corporation (c).....	1989	4.75%	120
Moscone Convention Center Garage (c).....	2009	9.0 to 11.0%	10,945
SAN FRANCISCO REDEVELOPMENT AGENCY:			
Lease Revenue Bonds:			
Moscone Convention Center (d).....	2009	6.1 to 7.25%	90,040
Hunters Point South School (c).....	1993	4.0 to 4.9%	1,190
Yerba Buena Center Liquidity Facility Revenue Bonds (e)...	1990	68% of prime	16,785
OTHER LONG-TERM OBLIGATIONS:			
Loans—State of California—Marina development (f).....	2008	4.5%	421
Capital leases payable (c).....	1997	7.12 to 9.72%	7,888
Estimated claims payable (c).....			41,984
Accrued vacation and sick leave pay (c).....			<u>47,511</u>
Total General Long-Term Obligations.....			<u>\$298,824</u>

Debt service payments are made from the following sources:

- (a) Property tax recorded in the Debt Service Fund.
- (b) Hotel taxes and operating revenues recorded in the Candlestick Park Special Revenue Fund.
- (c) General revenues recorded in the General Fund.
- (d) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund.
- (e) Proceeds from sales of specified Agency owned land parcels and future property tax increment revenue.
- (f) Operating revenues recorded in the Marina Yacht Harbor Special Revenue Fund.

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CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS— (Continued)

ENTERPRISE OBLIGATIONS

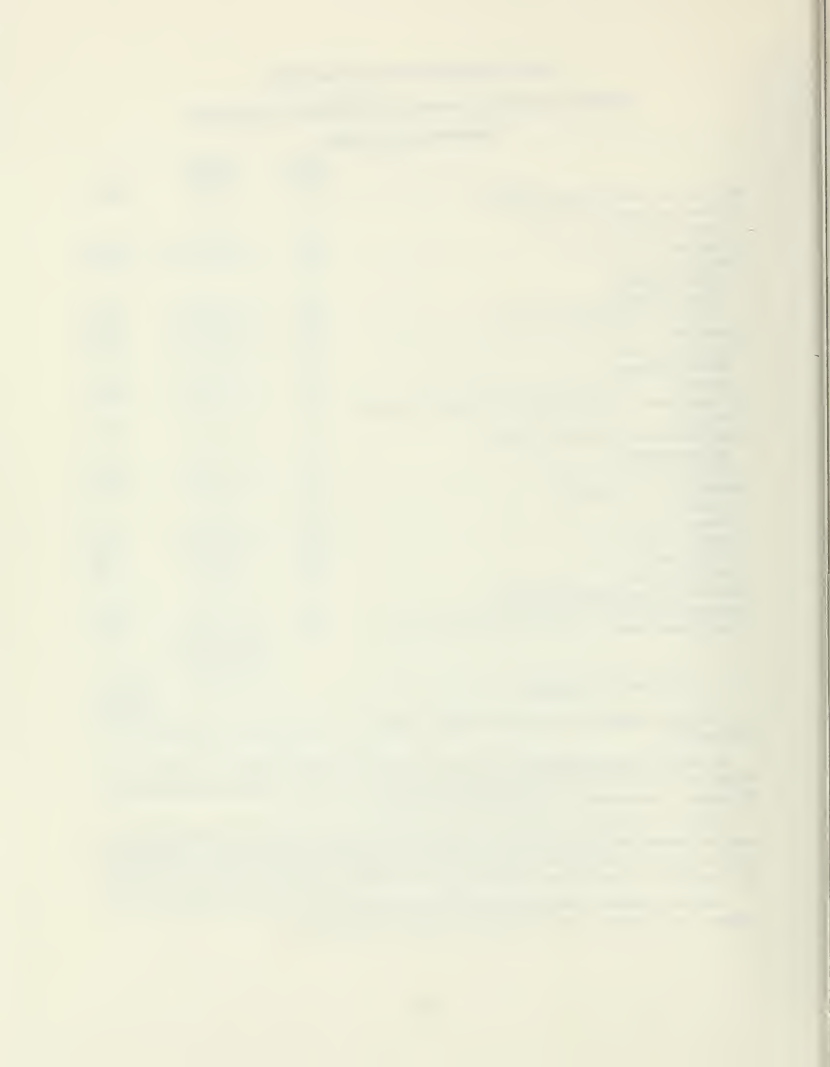
	Final Maturity Date	Remaining Interest Rates	Amount
REVENUE AND GENERAL OBLIGATION BONDS:			
San Francisco International Airport:			
General obligation	1994	4.0 to 5.3%	\$ 14,130
Revenue	2014	5.5 to 10.125%	405,280
Port of San Francisco:			
General obligation:			
State of California	1999	3.25 to 4.70%	10,545
City and County of San Francisco	2005	4.5 to 6.3%	18,800
Revenue	2009	5.25 to 11.5%	55,989
Clean Water Program:			
General obligation	1998	4.0 to 6.0%	41,915
Revenue	2009	5.0 to 10.4%	198,080
Municipal Railway / Municipal Railway Improvement Corporation:			
Revenue	1997	4.0 to 7.5%	18,070
Water Department/Hetch Hetchy Project:			
General obligation	2000	4.0 to 6.5%	16,895
Revenue	2016	6.1 to 8.5%	104,389
Nonprofit Parking Corporations:			
Downtown	1991	4.0%	460
Uptown	1996	6.2 to 7.0%	2,715
Western Addition	2000	3.7 to 4.75%	2,269
Ellis-O'Farrell	1992	3.7%	455
Portsmouth Plaza	1990	5.25%	33
San Francisco Redevelopment Agency:			
California Department of Boating and Waterway Loan	2035	4.7 to 7.9%	8,000
South Beach Harbor	2016	Bankers Trust TENR(R) rate plus .25%	23,900
Total Enterprise Obligations.....			<u>\$921,925</u>

The primary collateral for the general obligation bonds is the ad valorem tax on property within the City (note 5).

In order to facilitate affordable housing, the City has issued \$217.4 million in mortgage revenue bonds as of June 30, 1988. These obligations are secured by the related mortgage indebtedness and, in the opinion of management, are not obligations of the City.

The City is responsible for collecting a portion of general obligation debt of other local governmental units that provide services within the City's boundaries, and which must be borne by properties in the City. The primary overlapping debt relates to the Bay Area Rapid Transit District (BART). City taxpayers are responsible for \$134.3 million, approximately 31.4% of BART debt, maturing serially through 1999.

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(8) Retirement and Deferred Compensation Plans

The City maintains a single-employer, defined benefit pension plan (Employees' Retirement System) which covers most of its employees, and participates in the California Public Employees Retirement System, a multiple-employer, cost sharing public employee pension plan which covers certain employees in public safety functions and of the Port of San Francisco and the Redevelopment Agency.

Employees' Retirement System

Plan Description—The City has a defined benefit retirement plan which is administered by the San Francisco Employees' Retirement System (the Retirement System). Substantially all full-time employees of the City participate in this plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined monthly final average salary and provides annual cost-of-living adjustments after retirement. The payroll for employees covered by the Retirement System for the year ended June 30, 1988 was \$803 million; the City's total payroll was \$950 million.

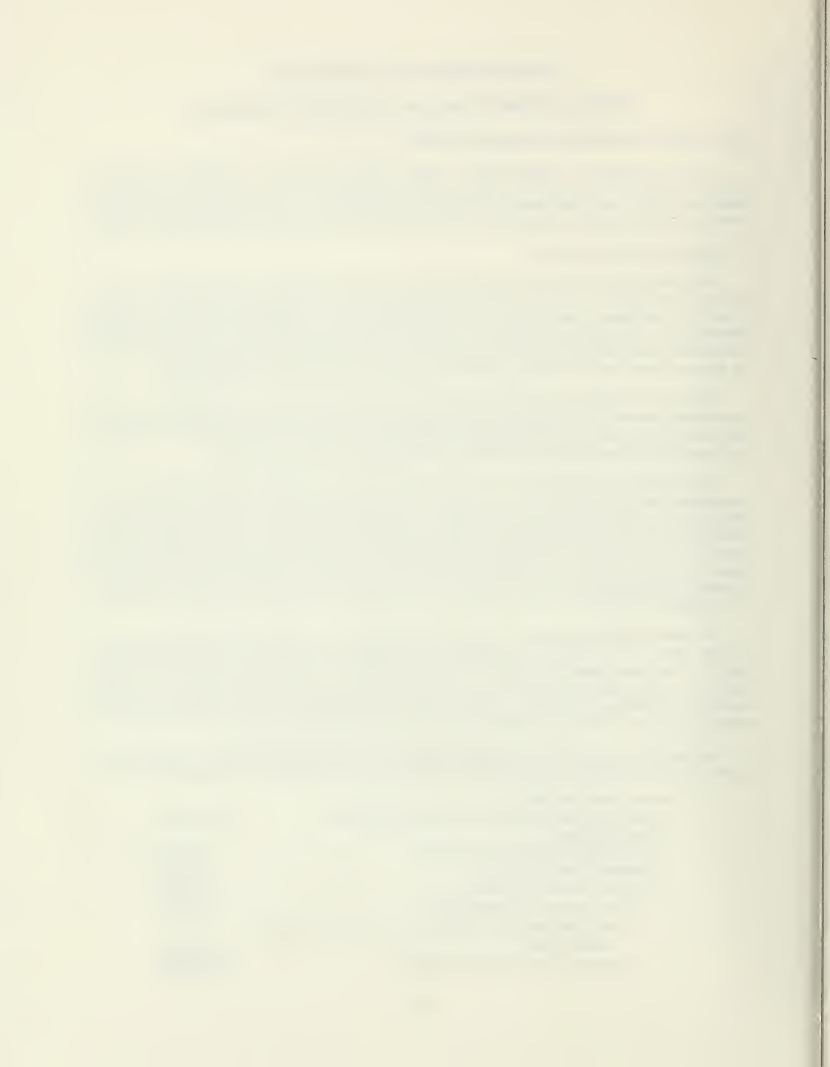
Police and fire department participants with 25 years of service who have attained age 50 are eligible for retirement benefits. Other participants with 20 years of service who have attained age 50 or those with 10 years of service who have attained age 60 are eligible for retirement benefits. The Retirement System also provides job-related disability benefits and death benefits to surviving spouses.

Funding Status and Progress—The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Retirement System.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1987 by the actuarial firm of Milliman and Robertson, Inc. Significant economic assumptions used in the actuarial valuation include: (1) annual rate of return on investments of 8%; (2) inflation element in wage increases of 6.5%; (3) salary merit increases ranging between 5% and 9% (based upon type of employee and years of service); and (4) postretirement benefit increases based on required annual cost-of-living adjustments which are a maximum of 2% per year.

The unfunded pension benefit obligation applicable to City employees included in the Retirement System was \$1,347 million at June 30, 1987 and was calculated as follows (in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits	\$2,047,034
Current employees:	
Accumulated employee contributions	393,425
Employer-financed vested	1,095,628
Employer-financed nonvested	708,148
Total pension benefit obligation	4,244,235
Net assets available for benefits, at cost (market value of \$3,269,759)	2,897,527
Unfunded pension benefit obligation	<u>\$1,346,708</u>



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Contribution Requirements and Contributions Made—A primary purpose of the actuarial valuation is to estimate the participant liabilities of the Retirement System so that contribution rates can be set to adequately fund the liability over the long term. The actuarial calculations are based on the entry age normal method with funding of the unfunded pension benefit obligation as a level percentage of payroll over the period ending June 30, 2000, as required by the Charter.

The significant actuarial assumptions from the actuarial valuation performed as of June 30, 1986 used to compute the contribution requirements for the year ended June 30, 1988 were the same as above, except that annual rate of return on investments was assumed to be 8.5% and the inflation element in wage increases 7.5%. The effect of these changes was not material to the total pension benefit obligation at June 30, 1987.

Contributions are made to the basic plan by both the City and employees. Employee contributions are mandatory. Employee contribution rates for 1988 varied from 7% to 8% as a percentage of gross salary except that general employees could elect to reduce their contributions in consideration of their Social Security benefits.

The basic City contributions are the amounts deemed necessary on an actuarial basis to provide the Retirement System with assets sufficient to pay the basic benefits that are not provided for by employees' contributions. Total contributions were (in thousands):

	Type of Employee		
	General	Police	Fire
City contributions:			
Normal cost	\$ 99,277	\$33,857	\$25,617
As a % of covered payroll	14.7%	45.9%	47.7%
Amortization of the unfunded actuarial accrued liability	22,287	29,578	27,550
As a % of covered payroll	3.3%	40.1%	51.3%
Total City contributions	121,564	63,435	53,167
As a % of covered payroll	18.0%	86.0%	99.0%
Employee contributions	34,733	5,414	3,853
As a % of covered payroll	5.1%	7.3%	7.2%
Total contributions	\$156,297	\$68,849	\$57,020
As a % of covered payroll	23.1%	93.3%	106.2%

Historical Trend Information—Trend information gives an indication of the progress made in accumulating assets to pay benefits when due. Ten year historical trend information on revenues by source and expenses by type is included in a supplemental schedule to the financial statements of the Retirement System.

At June 30, 1987, the date of the most recent actuarial valuation, net assets available for benefits were sufficient to fund 68.3% of the pension benefit obligation. The unfunded pension benefit obligation represents 180.1% of the annual covered payroll for the year ended June 30, 1987. Trend information on funding progress is not yet available because this is the first year actuarial valuations have been made using the standardized disclosure method described above.

California Public Employee Retirement System

Various City public safety, Port Commission and Redevelopment Agency employees participate in the State of California Public Employees' Retirement System (PERS). Contributions to PERS totalled approximately \$2.3 million for the year ended June 30, 1988. The payroll for employees covered by PERS



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS— (Continued)

for the year ended June 30, 1988 was \$30 million, or 3.1% of total City payroll. The overfunded pension benefit obligation applicable to City employees included in PERS was \$8.4 million at June 30, 1987, the date of the most recent actuarial valuation.

Deferred Compensation Plans

The City and Redevelopment Agency offer their employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City and Redevelopment Agency (without being restricted to the provisions of benefits under the plan), subject only to the claims of general creditors. Participants' rights under the plan are equal to those of general creditors of the City and Redevelopment Agency in an amount equal to the fair market value of the deferred account for each participant.

Deferred compensation plan assets are included in an agency fund. Of the \$95.5 million in the plan at June 30, 1988, \$93.4 million was applicable to the City and \$2.1 million was applicable to the Redevelopment Agency

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(9) Segment Information for Enterprise Funds

The City maintains Enterprise Funds that provide water, sewage treatment, airport, public transportation, hospital, parking, and harbor services and facilities which are largely financed by user charges. Segment information for the year ended June 30, 1988 follows (in thousands):

	San Francisco International Airport	Port of San Francisco	Water Dept. / Hetch Hetchy Project	Municipal Railway	Laguna Honda Hospital	General Hospital Medical Center	Clean Water Program	Parking Garages / Other	Total
Operating revenues	\$125,965	\$ 29,745	\$149,259	\$ 73,552	\$59,157 (1)	\$ 98,590 (1)	\$ 58,731	\$13,645	\$ 608,644
Operating expense									
Depreciation	20,764	3,829	12,245	17,785	1,171	3,476	20,543	596	80,409
Other	73,675	21,762	114,554	238,394	64,584	187,906	42,030	10,101	753,006
Operating income (loss)	31,526	4,154	22,460	(182,627)	(6,598)	(92,792)	(3,842)	2,948	(224,771)
Operating grants	—	—	—	42,086	1,291	32,782	—	—	76,159
Operating transfers (net)	(10,304)	—	(45,000)	110,765	5,939	55,525	6,520	(2,256)	121,189
Interest and other non-operating revenues (net)	(5,931)	12,507	8,632	8,758	—	790	(4,331)	(421)	20,004
Extraordinary items	—	—	(8,710)	44,662	—	—	—	—	35,952
Net income (loss)	\$ 15,291	\$ 16,661	\$ (22,618)	\$ 23,644	\$ 632	\$ (3,695)	\$ (1,653)	\$ 271	\$ 28,533
Capital grants	\$ 2,695	\$ —	\$ 300	\$ 18,394	\$ —	\$ 407	\$ 23,260	\$ —	\$ 45,056
Current assets	\$181,683	\$ 28,856	\$114,692	\$ 51,419	\$ 7,692	\$ 34,489	\$ 170,683	\$26,384	\$ 615,898
Current liabilities	57,712	8,240	39,116	55,165	11,567	36,797	28,589	6,837	244,023
Net working capital	\$123,971	\$ 20,616	\$ 75,576	\$ (3,746)	\$ (3,875)	\$ (2,308)	\$ 142,094	\$19,547	\$ 371,875
Total assets	\$841,555	\$247,366	\$717,050	\$468,963	\$20,127	\$ 77,383	\$1,068,253	\$78,115	\$3,518,812
Total liabilities	469,503	94,331	165,794	105,361	14,609	45,262	262,064	45,313	1,202,237
Fund equity	\$372,052	\$153,035	\$551,256	\$363,602	\$ 5,518	\$ 32,121	\$ 806,189	\$32,802	\$2,316,575
Contributed capital	\$105,633	\$ 71,271	\$ 51,053	\$290,134	\$ 8,448	\$ 55,967	\$ 663,025	\$ —	\$1,245,531
Retained earnings (deficit)	266,419	81,764	500,203	73,468	(2,930)	(23,846)	143,164	32,802	1,071,044
Fixed asset additions (net)	38,135	12,265	24,991	18,544	1,481	3,216	54,431	1,479	154,542
Net proceeds from sale of bonds	—	—	104,389	—	—	—	—	—	104,389
Total debt outstanding	\$419,410	\$ 85,334	\$121,284	\$ 18,070	\$ —	\$ —	\$ 239,995	\$37,832	\$ 921,925

(1) Net of \$10.6 million and \$92.8 million in provisions for contractual allowances and uncollectible accounts for Laguna Honda Hospital and General Hospital Medical Center, respectively

(a) San Francisco International Airport

The Airport has sold \$451.5 million in revenue bonds to finance improvements and modernization of airport facilities. The project which began in 1968 was completed in June 1988 at a total cost of \$500 million.

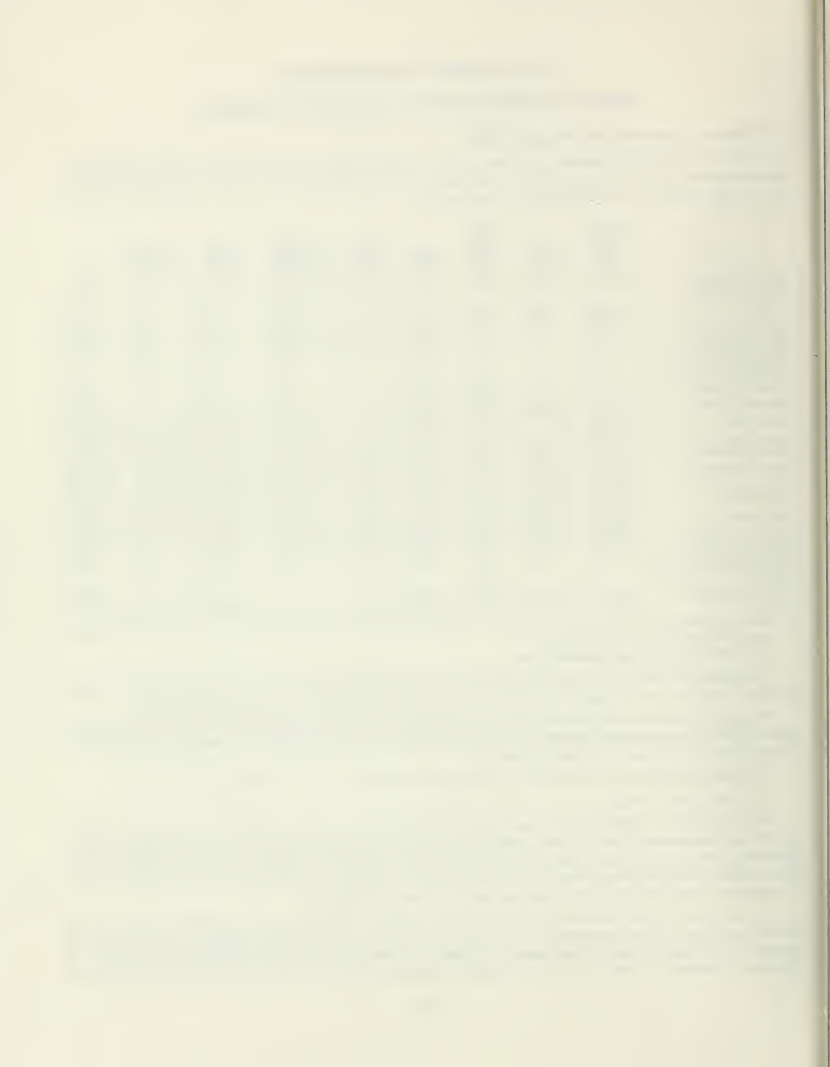
Pursuant to an agreement with certain airlines, the Airport makes an annual payment to the City's General Fund equal to 15% of concessionaire revenue, but not less than \$5 million per fiscal year. The amount transferred to the General Fund during fiscal 1988 was \$9.7 million.

Purchase commitments for construction, materials and services at June 30, 1988 were \$14.5 million.

(b) Port of San Francisco

Prior to February 7, 1969 the Port of San Francisco was owned by the State of California. On February 7, 1969, the Port was transferred to the City under terms and conditions of legislation as ratified by the electorate of the City. Accordingly, the City assumed all debt, including State of California general obligation bonds, from the State at the date of transfer, this debt amounted to \$10.5 million at June 30, 1988. The State retains the right to amend, modify or revoke the transfer provided that it assumes all related lawful obligations.

In fiscal 1983, the Port acquired land subject to a 30-year tenant lease, on the condition that the Port not exercise its option to take possession of such property outright. The \$9.9 million property value received was recorded as deferred revenue. In fiscal 1988, as a result of the tenant's bankruptcy, the lease was terminated. The termination agreement, in addition to lease cancellation, required transfer of title to certain drydocks and cranes to



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

the Port. The Port has recorded the drydocks and cranes at an estimated value of \$4.1 million. This amount, together with the remaining unamortized deferred revenue of \$8.8 million, has been recognized as non-operating revenue in the accompanying financial statements. The Port has re-leased this property and equipment on a long-term basis.

The Port is currently planning various development projects which involve a commitment to spend significant capital funds. Purchase commitments for construction, materials and services at June 30, 1988 were \$3.3 million.

(c) Water Department/Hetch Hetchy Project

The segment data presented reflects the combined statements of the Water Department/Hetch Hetchy Project (Water/Hetch Hetchy), whose operations are interrelated. The Hetch Hetchy Project is a system of reservoirs and hydroelectric generating stations and the related distribution systems; it provides the Water Department with its water and sells electric power to City departments and to public and private agencies.

In December 1987, the Water Department issued revenue bonds with net proceeds of \$104.4 million in an advance refunding of \$101.9 million of outstanding 1985 revenue bonds. The proceeds were used to purchase U.S. government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1985 revenue bonds. As a result, the 1985 revenue bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet. Although the advance refunding resulted in the recognition of an accounting loss of \$8.7 million which was recognized as an extraordinary loss for the year ended June 30, 1988, the Water Department in effect reduced its aggregate debt service payments by \$9.9 million over the next 28 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$8.6 million.

In March 1988, the Hetch Hetchy Project entered into new agreements to sell power to two major customers which establish increased pricing due to Hetch Hetchy's ability to provide specified amounts of guaranteed power to those customers. These agreements were made possible by a new supply contract negotiated with Pacific Gas and Electric (PG&E) which provides for PG&E to supply Hetch Hetchy back-up power when necessary. Management estimates these agreements will generate net revenues of \$28.7 million during a normal water year.

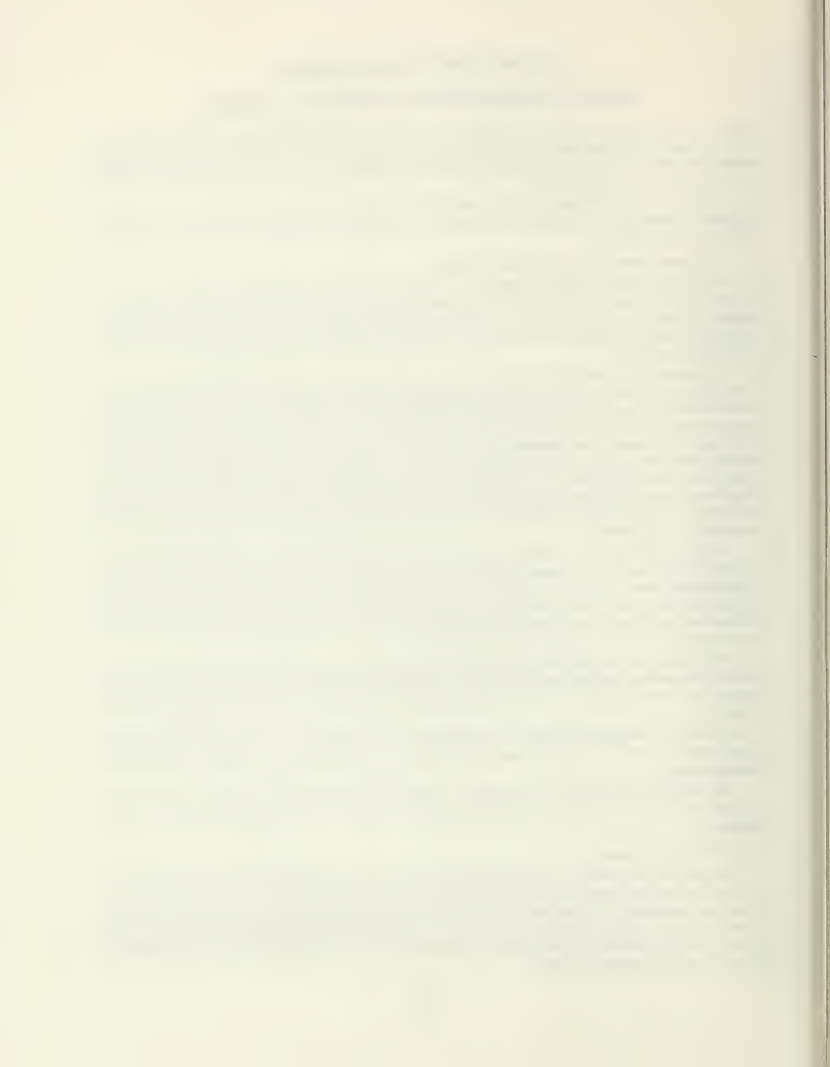
The property tax levy of the City includes amounts to pay annual bond interest and redemption charges on general obligation bonds of Water/Hetch Hetchy, which are included in the Water/Hetch Hetchy Enterprise Fund. Water/Hetch Hetchy transfers a like amount to the General Fund, as described in note 5.

Income from Water/Hetch Hetchy is available for certain operations of the City. During the year ended June 30, 1988, \$45 million was transferred to the General Fund in addition to the amount described above.

The Hetch Hetchy Project has approved unexpended capital grants amounting to \$1.9 million available to finance improvements to overhead power systems of the Municipal Railway and other projects.

(d) Municipal Railway

The segment data reflects the combined operations of the San Francisco Municipal Railway (Muni) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC). SFMRIC is a nonprofit corporation organized for the purpose of acquiring, constructing, improving and financing improvements to the City's public transportation system. The City's Annual Appropriation Ordinance provides funds to subsidize Muni's operating deficits as determined under the City's budgetary accounting procedures, subject to the appropriation process.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Power and maintenance costs valued at \$3.7 million for overhead distribution lines used to operate certain Municipal Railway vehicles were provided by the Hetch Hetchy Project at no cost to Muni for fiscal year 1988.

Muni collects Transit Impact Development Fees which are intended to recover the capital and operating costs of increased peak period transit service associated with the new office construction in downtown San Francisco. Two lawsuits regarding these fees had been under appeal and, as a result, amounts collected had been held in escrow and income recognition was deferred. In December, 1987 one lawsuit originally decided in favor of Muni dealing with the legality of the fee was refused appeal review by the U.S. Supreme Court; accordingly, \$51.5 million was recognized as income during the current year including \$44.7 million as an extraordinary item related to prior years. The second lawsuit, dealing with projects where initial permits had been filed before implementation of the fee, was decided against Muni by the California Appeals Court and has been accepted for hearings by the U.S. Supreme Court. At June 30, 1988, \$12.3 million was held in escrow and related income recognition deferred pending final outcome of this lawsuit.

As of June 30, 1988, the Municipal Railway had various approved capital grants with unused balances amounting to \$129.3 million available to finance various improvements. Contract commitments were \$28 million at June 30, 1988.

The State Public Utilities Code provides that fare revenues must equal or exceed 33% of operating costs in order to qualify for allocation of sales tax revenues available for public transit. During 1985, the state law was changed so that a portion of the City's subsidy may count toward meeting the 33% requirement. Muni did not meet this specified percentage of fare revenue in fiscal 1988, and has requested inclusion of the subsidy. No response has been received. Muni management believes no liability will result.

(e) Laguna Honda Hospital

The operations of Laguna Honda Hospital, an acute health care facility specializing in serving elderly and disabled residents, were established as an enterprise fund on July 1, 1983. As with other subsidized enterprises, the City's policy is to fund Laguna Honda's operating deficits on a budgetary basis, subject to the appropriation process.

(f) General Hospital Medical Center

The City's policy provides for the General Fund to fund operating deficits of the General Hospital Medical Center, as determined in accordance with the City's budgetary accounting procedures, subject to the appropriation process.

The State provides funding for medically indigent adult patients. Such amounts totaled \$24.3 million in fiscal 1988 and are included in operating revenues.

(g) Clean Water Program

The Clean Water Enterprise Fund was established pursuant to bond resolutions to account for the whole of the municipal sewage treatment and disposal system, including a major construction program currently underway.

In 1976, the electorate authorized the issuance of up to \$240 million principal amount of revenue bonds to partially finance improvements to the municipal sewage treatment and disposal system. As of June 30, 1988, \$195 million principal amount of the available bonding capacity has been utilized. Subsequent to June 30, 1988 the remaining \$45 million principal amount was issued, together with \$100 million General Purpose Sewer Revenue Bonds which did not require voter approval under the California

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Government Code or the City Charter. A substantial part of the cost of the total construction program has been and is expected to be provided from capital grants of the United States Environmental Protection Agency and the California Water Resources Control Board. As of June 30, 1988, the Clean Water Program had outstanding construction contract commitments of \$26 million.

To provide for possible deferral or discontinuance of Federal and state funds, Clean Water management has developed a schedule consistent with its Master Plan that builds operating core systems on both sides of the City. The Bayside core system is operational, and a substantial portion of the Westside core system was placed in service in December 1986. These systems will be interconnected and enlarged in incremental stages to ensure functioning units while implementing the Master Plan program. The two-core system is expected to cost \$926 million. Funding for \$818 million is available through existing grants and Enterprise funds. The remaining \$108 million will be funded through additional Federal and state grants and Enterprise funds not committed to existing projects.

The City is currently operating under Cease and Desist Orders imposed by the San Francisco Bay Regional Water Quality Control Board which contain project schedules leading to compliance with all provisions of the Federal Clean Water Act of 1966. The Clean Water Program management believes that, given the assumed level of grant and bond funding, the City will comply with the Orders.

During fiscal 1988, an operating transfer of \$6.5 million was made from the City's Debt Service Fund to provide for general obligation debt service of the enterprise fund. The City has approved an operating transfer of \$6.3 million for fiscal 1989.

(h) *Parking Garages/Other*

The segment data reflects the operations of five parking garages operated by separate nonprofit corporations organized by the City. This segment data also includes the San Francisco Market Corporation, a nonprofit corporation organized to acquire, construct, finance and operate a produce market; and the Redevelopment Agency's South Beach Harbor Project, an enterprise fund established to commercially develop an area of the Bay waterfront and operate a boat harbor.



NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The Agency's other primary sources for funding urban development include grant monies, which the City receives from the U.S. Department of Housing and Urban Development (HUD) and transfers to the Agency, and proceeds from sale of land acquired for redevelopment. The following is a financial summary of the Agency Capital Project Fund at June 30, 1988 (in thousands).

ASSETS		OPERATIONS	
Cash, investments and other assets	\$ 30,652	Revenues	
Property held for resale and/or lease	84,279*	Tax increment	\$ 5,731
	<u>\$114,931</u>	Land sales proceeds	14,371
		Rent, interest and other	<u>5,424</u>
			25,526
LIABILITIES AND FUND BALANCE		Expenditures—Capital outlay	<u>12,681</u>
Accounts payable and deferred revenues	\$ 6,288	Excess of revenues over expenditures	12,845
Advance from the City and County of San Francisco	<u>1,500</u>	Other financing sources (uses)	
	<u>7,788</u>	Transfer from Community Development Block Grant Special Revenue Fund	5,540
		Transfer to Debt Service Fund	<u>(10,005)</u>
Fund balance		Excess of revenues and other sources over expenditures and other uses	8,380
Reserved for property held for resale and/or lease	84,279	Fund balance at beginning of year	114,811
Unreserved—undesignated	<u>22,864</u>	Net change in reserve for assets not available for appropriation	<u>(16,048)</u>
	<u>107,143</u>		
	<u>\$114,931</u>	Fund balance at end of year	<u>\$107,143</u>

* Use of proceeds is or is expected to be restricted for specific project costs by contractual agreement

The Agency has issued lease revenue bonds with a June 30, 1988 balance of \$91.2 million (note 7) for properties which are leased to the City and secured by the related lease revenues. Trustee-held bond monies relating to the Moscone Convention Center and Hunters Point South School lease revenue bonds are included in the Debt Service and Capital Project funds and have fund balances at June 30, 1988 totaling approximately \$30.3 million and \$2.1 million, respectively.

In order to facilitate construction and rehabilitation within the project areas, the Agency has issued various construction loan notes, promissory notes, mortgage revenue bonds and certificate of deposit revenue bonds with an aggregate outstanding balance of \$566.5 million at June 30, 1988. These obligations are secured by the related mortgage indebtedness and, in the opinion of management, are not obligations of the Agency or City.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(11) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 1988 are as follows (in thousands):

	Interfund Receivables	Interfund Payables		Interfund Receivables	Interfund Payables
General Fund	\$ 67,477	\$ 19,451	Enterprise Funds		
Special Revenue Funds			San Francisco International Airport	\$ —	\$ 1,525
Hotel Tax Fund	—	9,424	Port of San Francisco	93	197
Gasoline Tax Fund	74	4,851	Water Department/Hetch Hetchy		
Convention Facilities Fund	6,669	434	Project	5,206	2,184
Open Space and Park Fund	108	95	Municipal Railway	122	12,222
Community Development Block Grant			Laguna Honda Hospital	579	2,491
Fund	2,003	5,694	General Hospital Medical Center	2,582	19,576
Senior Citizens Programs Fund	13	515	Clean Water Program	85	5,457
Candlestick Park Fund	709	282	Parking Garages/Other	—	563
Special Recreation and Park Revenue				8,667	44,215
Fund	—	651			
School Deposits Fund	—	495	Internal Service Funds		
California Youth Authority Fund	—	73	Data Processing Fund	2,000	45
Health and Human Services Fund	—	1,432	Central Shops Fund	785	2,564
Off Street Parking Fund	—	668	Workers' Compensation Fund	7,557	1,594
War Memorial Fund	1,138	114	Other Internal Service Funds	819	1,052
Department of Health Fund	—	399		11,161	5,255
Miscellaneous Federal Grant Funds	—	636			
Miscellaneous State Grant Funds	10	1,743	Fiduciary Funds		
Other Special Revenue Funds	22,130	8,114	Employees' Retirement System	—	458
	32,854	35,620	Health Service System	938	—
Debt Service Funds	312	1,590	Expendable Trust Funds	—	43
Capital Projects Funds			Agency Funds		
Redevelopment Agency Fund	1,255	1,500	Payroll Deduction Fund	3	687
Street Improvement Fund	5,477	4,388	Unapportioned Taxes and Interest	—	3,769
City Facility Improvement Fund	51	8,656	Fund	—	21
Recreation and Park Projects Fund	2	209	Deposits Fund	—	869
Environmental Development Agency			Assistance Program Fund	—	1,113
Projects Fund	—	33	School and College District Fund	—	—
Open Space Development Fund	—	35		941	6,960
Other Capital Projects Funds	35	320		128,232	128,232
	6,820	15,141	Total		

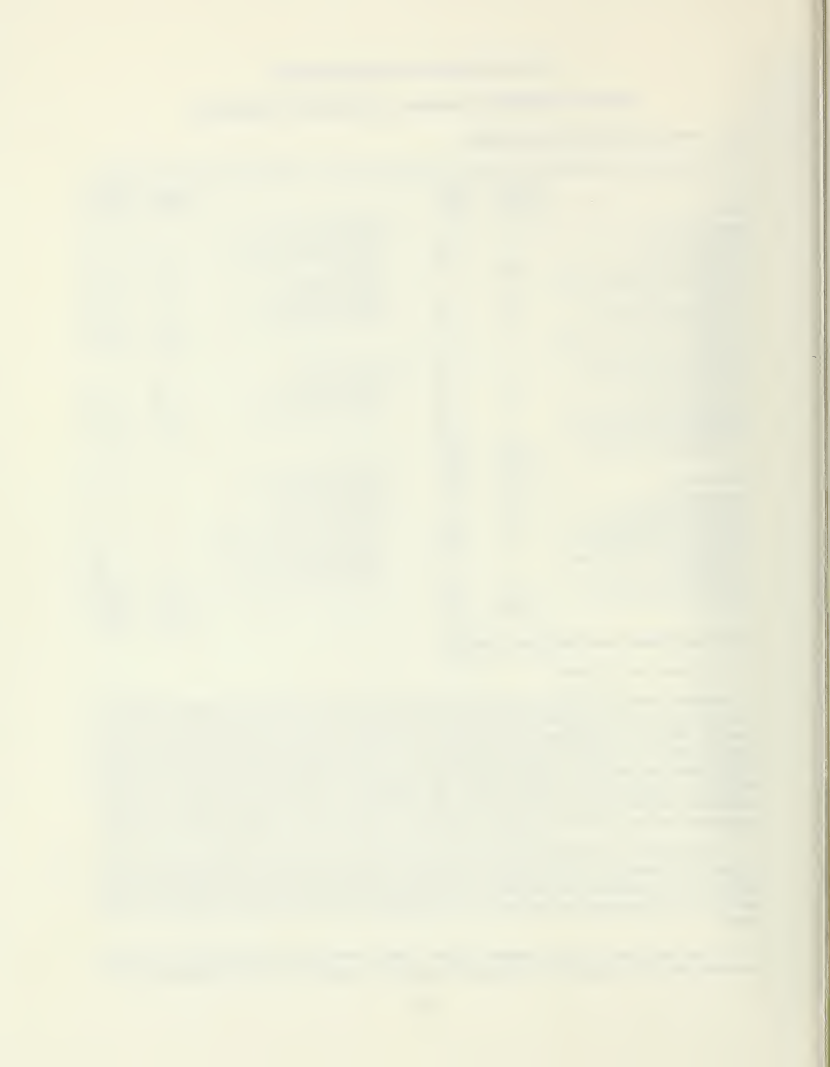
(12) Commitments and Contingent Liabilities

(a) Claims and Litigation

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City Attorney estimates the amount of liability determined to be probable of occurrence as of June 30, 1988, in accordance with Statement of Financial Accounting Standards No. 5, to be approximately \$56.6 million. Claims and litigation in the governmental fund types approximating \$14.6 million are estimated to be liquidated with expendable available financial resources and are included as liabilities of the General Fund. The remainder is included in the General Long-Term Obligations Account Group. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated.

The City Attorney estimates that certain other pending cases have a reasonable possibility (defined as more than remote but less than likely) of resulting in additional liability in the aggregate amount of \$26.6 million. This amount is not recorded in the accompanying financial statements because the status and/or facts of these cases are such that it is not probable that a loss has been incurred as of June 30, 1988.

A claim has been made to overturn certain Charter amendments affecting pension and other employee benefits. If successful, it could result in significant increases in the City's personnel costs.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The Municipal Railway self-insures for estimated accident claims. Estimated accident claims payable amounted to approximately \$12.1 million as of June 30, 1988. Estimated claims payable in other Enterprise Funds were \$9.0 million.

(b) *Grants and Subventions*

Receipts from Federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

(c) *Insurance*

For its general governmental activities, Clean Water Program and General Hospital, the City self-insures all general liability risks and substantially all its property risks except for limited excess coverage maintained on certain facilities. Payment of claims is provided for through annual appropriations which are based on claims payment experience and supplemental appropriations.

At June 30, 1988, excess coverage amounted to \$129 million, with a \$50 thousand deductible, and \$35 million, with a \$1 thousand deductible, for Moscone Center property and personal liability, respectively, and \$50 million, with a \$15 thousand deductible, for Fine Arts Museum property. Limited external insurance coverage is maintained by the San Francisco Redevelopment Agency, San Francisco International Airport, Port of San Francisco, Water Department/Hetch Hetchy Project and Municipal Railway.

The City self-insures for workers' compensation which is accounted for in an internal service fund. The total amount estimated to be payable for claims incurred as of June 30, 1988, and the amount estimated to be receivable from the Enterprise Funds and from the General Fund in the ensuing year, has been accrued in the Workers' Compensation Fund. The resultant retained earnings deficit of \$30.8 million is expected to be funded by the General Fund in fiscal year 1990 and thereafter, based on billings as actual claims are paid. During fiscal 1988, the City revised its method of estimating its claims liability, resulting in an increase of \$21.0 million.

Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System, the only nonexpendable trust fund. The City's contribution, which amounted to approximately \$47.5 million in fiscal 1988, is determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is \$14.0 million to provide postretirement health care benefits for retired employees. The City's liability for both current employee and postretirement health care benefits is limited to its annual contribution.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(d) Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of telephone equipment. The City has also financed certain computer equipment in the Data Processing Internal Service Fund. These agreements qualify as capital leases for accounting purposes and, therefore, have been recorded in the financial statements as fixed assets and related lease debt. The present value of remaining future minimum lease payments is as follows (in thousands):

<u>Fiscal Years</u>	<u>General Long- Term Obli- gations Account Group</u>	<u>Internal Service Funds</u>
1989	\$ 1,524	\$1,397
1990	1,524	695
1991	1,513	—
1992	1,331	—
1993	1,183	—
Thereafter	<u>4,163</u>	<u>—</u>
Total minimum lease payments	11,238	2,092
Less amounts representing interest	<u>3,350</u>	<u>231</u>
Present value of future minimum lease payments	<u>\$ 7,888</u>	<u>\$1,861</u>

(e) Operating Leases

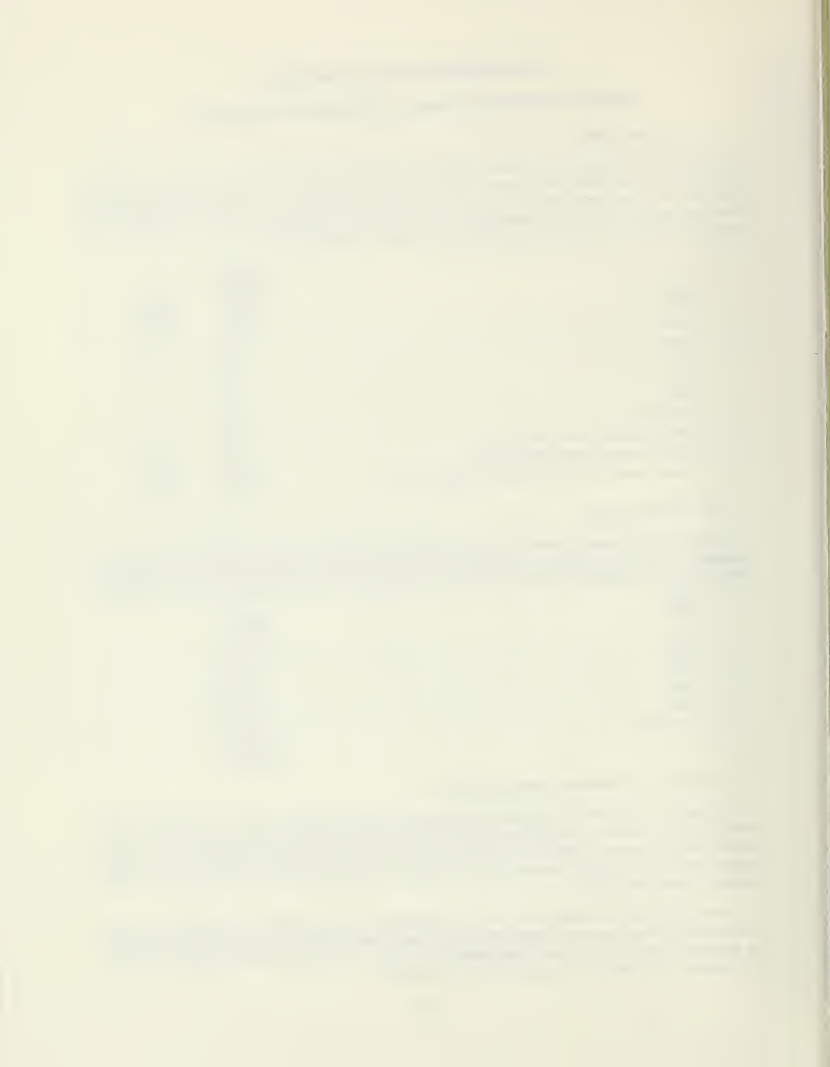
The City has operating leases for certain buildings and data processing equipment which are not material to the City's operations. The Airport, Port and two parking garages lease various facilities to tenants and concessionnaires who will provide the following minimum annual payments (in thousands):

<u>Fiscal Years</u>	<u>Amount</u>
1989	\$ 30,148
1990	17,966
1991	17,201
1992	16,453
1993	13,360
Thereafter	<u>184,543</u>
	<u>\$279,671</u>

(f) Deficit Fund Balances/Retained Earnings

At June 30, 1988, the two hospital enterprise funds, Laguna Honda Hospital and General Hospital Medical Center, had deficit retained earnings of \$2.9 million and \$23.8 million, respectively. The City's policy is to fund operating deficits on a budgetary basis, which approximates the modified accrual basis of accounting. Accordingly, depreciation and certain non-current accrued expenses are not funded resulting in continuing deficits.

Three internal service funds have deficit fund balances at June 30, 1988. The Central Shop's deficit of \$2.3 million is expected to be funded through increased service charges in future years. The deficit in the Workers' Compensation Fund is discussed in note 12(c). The Other Internal Service Fund had a small deficit which should be covered by future revenues.



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

(g) Construction Commitments

Construction and other significant commitments in governmental fund types amounted to \$35.9 million at June 30, 1988. Commitments for Enterprise Funds are included in note 9.

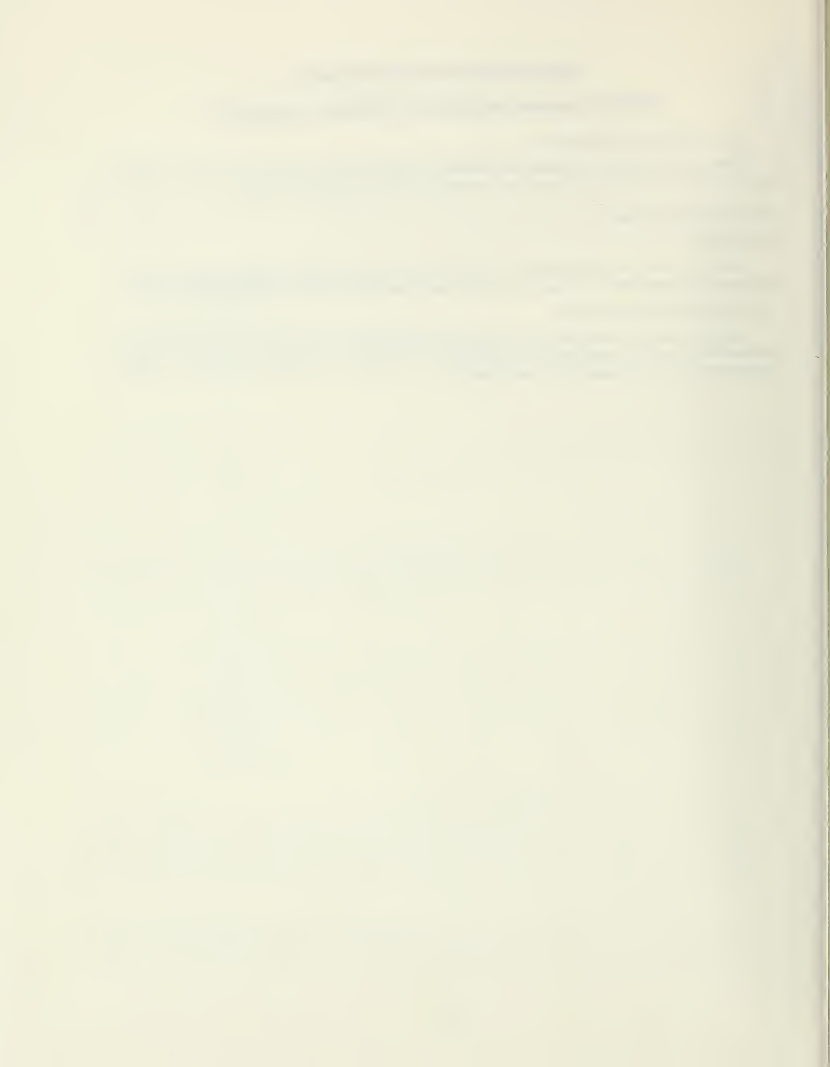
(13) Subsequent Events

Bond Issue

The City's voters at the November 8, 1988 election approved a \$109.5 million general obligation bond issue for construction of a new main public library and reconstruction of branch libraries.

Environmental Protection Loans

The City's Charter was amended by a majority of the voters in the November 8, 1988 election, to authorize the Board of Supervisors to borrow money guaranteed or subsidized by State or Federal governments for environmental protection projects.





DOYLE, WILLIAMS, ADLEY & COMPANY

KPMG Peat Marwick

Chek F. Tan

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY SCHEDULE OF FEDERAL ASSISTANCE

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the combined financial statements of the City and County of San Francisco (the City) for the year ended June 30, 1988, and have issued our report thereon dated November 9, 1988. These combined financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and whether management has complied with laws and regulations. An audit in accordance with those standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

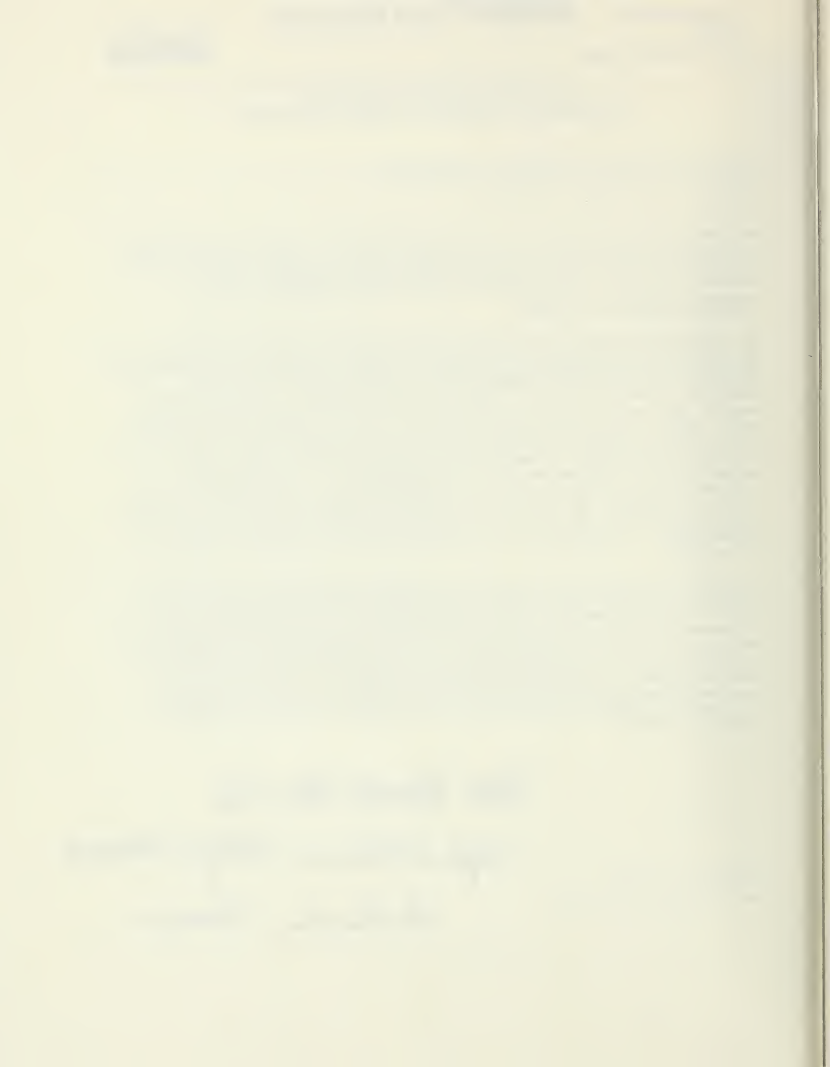
Our audit was made for the purpose of forming an opinion on the combined financial statements of the City and County of San Francisco taken as a whole. The supplementary information included in the accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the combined financial statements of the City and County of San Francisco. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Peat Marwick Main & Co.

Doyle, Williams, Adley & Company

Chek F. Tan

November 9, 1988
San Francisco, California

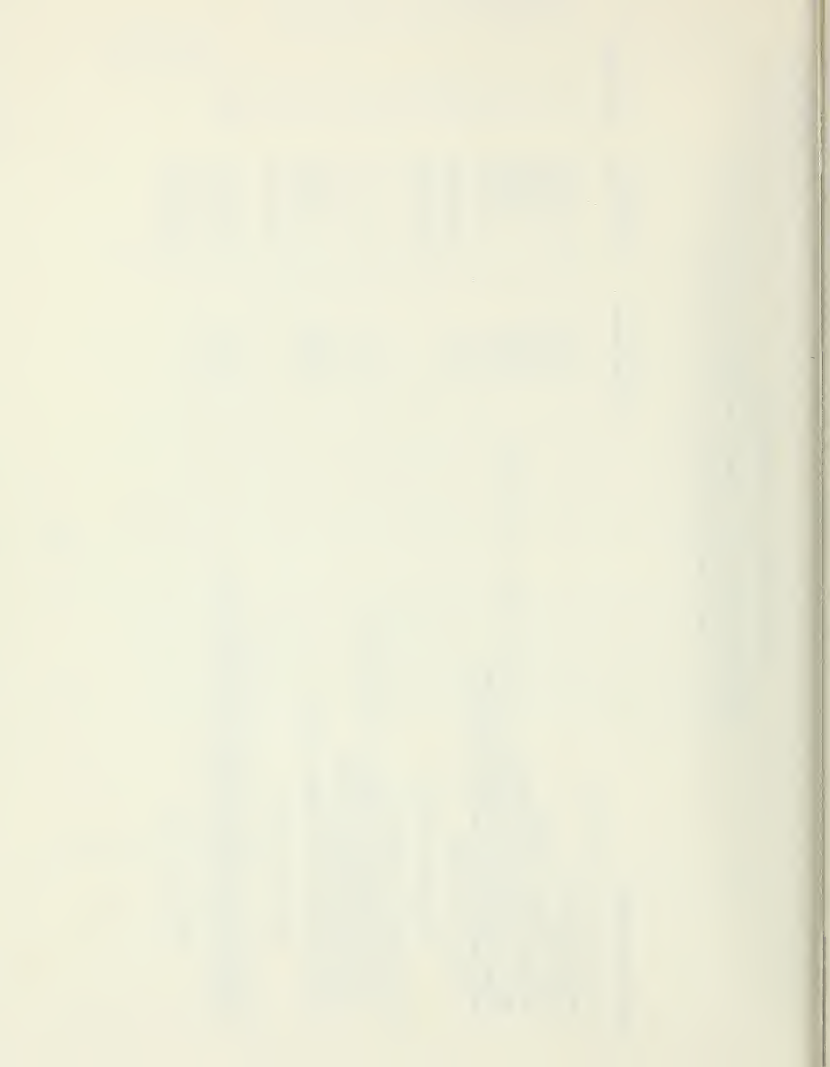


CITY AND COUNTY OF SAN FRANCISCO

Supplementary Schedule of Federal Assistance

Year ended June 30, 1988

<u>Department/Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>	<u>Finding No.</u>
U.S. Department of Agriculture:			
Food Distribution	10.550	\$ 939,563	
Food Stamps	10.551	17,237,300	
School Breakfast Program	10.553	62,038	
National School Lunch Program	10.555	96,058	
Special Supplemental Food Program for Women, Infants, and Children	10.557	553,879	
Summer Food Service Program for Children	10.559	687,855	
State Administration Matching Grants for			
Food Stamp Program	10.561	4,304,257	
Department Total		23,880,950	
U.S. Department of Commerce:			
Economic Development - Grants for Public Works	11.300	1,093,705	
and Development Facilities			
Coastal Zone Management Program	11.419	5,947	
Administration Grants	11.800	33,821	
Minority Business Development Centers			
Department Total		1,133,473	
U.S. Department of Housing and Urban Development:			
Community Development Block Grant Entitlement Grants	14.218	23,055,772	2,3,4
Emergency Shelter Grants Program	14.231	68,756	
Department Total		23,124,528	

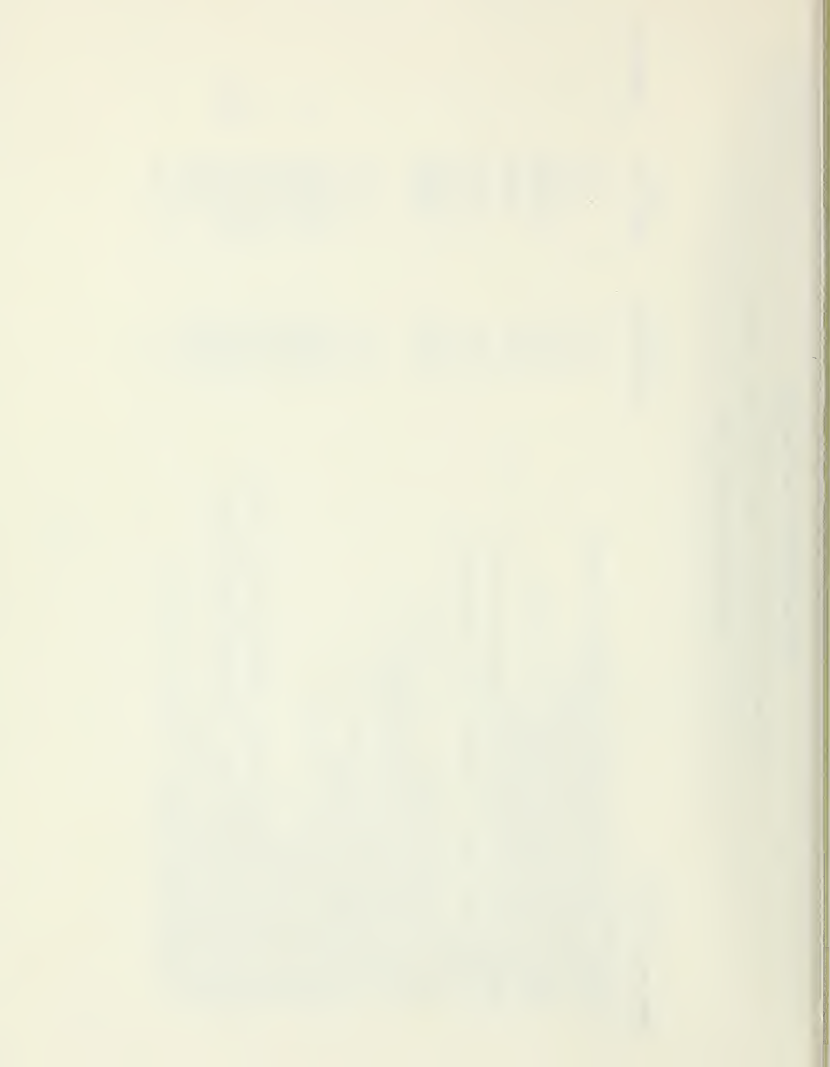


CITY AND COUNTY OF SAN FRANCISCO

Supplementary Schedule of Federal Assistance, Continued

Year ended June 30, 1988

Department/Program	Federal Catalog Number	Federal Expenditures	Finding No.
U. S. Department of Health and Human Services:			
Maternal and Child Health Federal Consolidated Programs	13.110	\$ 40,652	
Project Grants and Cooperative Agreements	13.116	92,931	
for Tuberculosis Control Programs	13.118	2,804,886	
Acquired Immunodeficiency Syndrome (AIDS) Activity			
Health Service Delivery to Persons	13.133	849,687	
with AIDS - Demonstration Grants			
Alcohol, Drug Abuse Treatment and Rehabilitation Block	13.141	846,784	
Grant			
Drug and Alcohol Abuse - High Risk Youth Demonstration	13.144	352,584	
Grants	13.279	304,738	
Drug Abuse Research Programs	13.379	188,493	
Grants for Graduate Training in Family Medicine			
Special Programs for the Aging-Title III,			
Part B-Grants for Supportive Services	13.633	971,456	
and Senior Centers			
Special Programs for the Aging-Title III,			
Part C-Nutrition Services	13.635	1,629,415	
Child Welfare Services - State Grants	13.645	2,442,162	
Foster Care - Title IV-E	13.658	6,698,623	5,6
Adoption Assistance	13.659	714,821	
Social Services Block Grant	13.667	9,899,302	
Family Support Payments to States - Assistance Payments (AFDC)	13.780	43,678,487	7
Child Support Enforcement	13.783	5,868,157	8,9,10
Refugee and Entrant Assistance - State Administered Programs	13.787	3,497,124	7,11
Work Incentive Program	13.790	92,968	
Home Health Services and Training	13.888	19,421	
Preventative Health Services - Sexually Transmitted			
Diseases Control Grants	13.977	410,087	

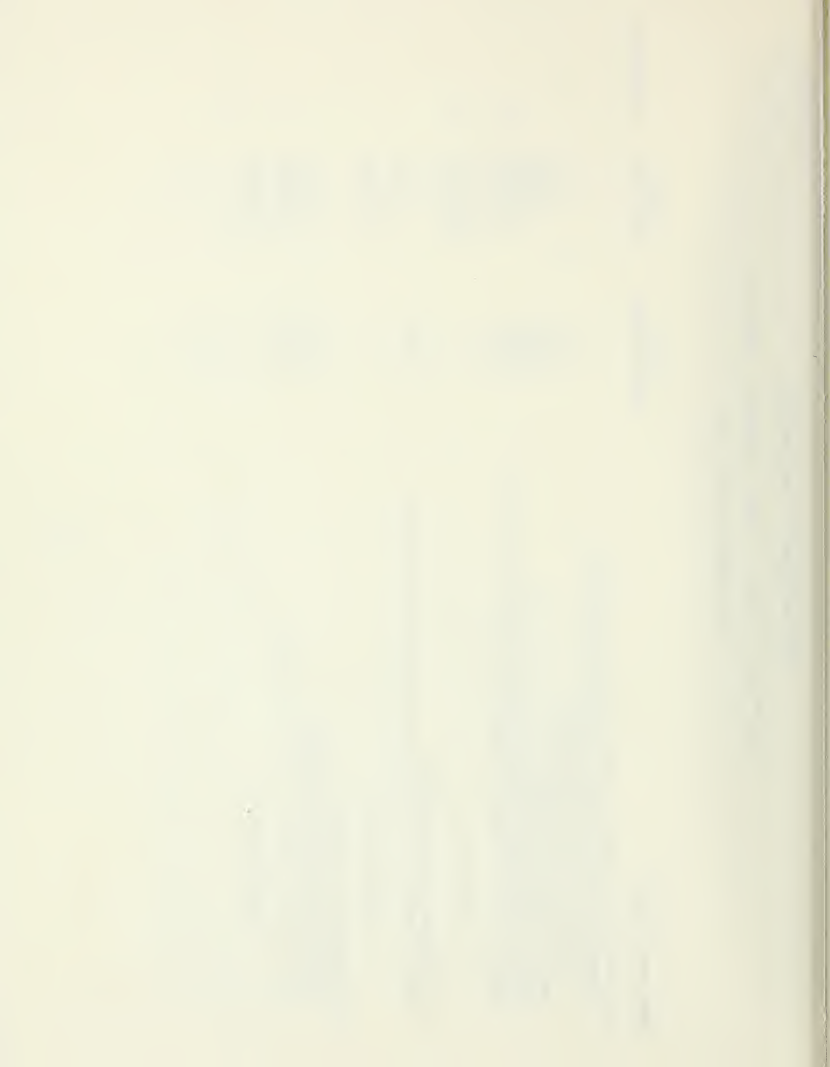


CITY AND COUNTY OF SAN FRANCISCO

Supplementary Schedule of Federal Assistance, Continued

Year ended June 30, 1988

<u>Department/Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>	<u>Finding No.</u>
U.S. Department of Health and Human Services, continued:			
Preventative Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	13.978	\$ 21,212	
Health Programs for Refugees	13.987	133,428	
Preventive Health and Health Services Block Grant	13.991	57,576	
Alcohol and Drug Abuse and Mental Health Services Block Grant	13.992	3,062,350	12
Maternal and Child Health Services Block Grant	13.994	<u>1,921,409</u>	
Department Total		86,598,753	13
U.S. Department of the Interior:			
Outdoor Recreation - Acquisition, Development and Planning	15.916	<u>72,321</u>	
Department Total		<u>72,321</u>	
U.S. Department of Justice:			
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	259,796	
State and Local Narcotics Control Assistance	16.579	<u>306,529</u>	
Department Total		<u>566,325</u>	

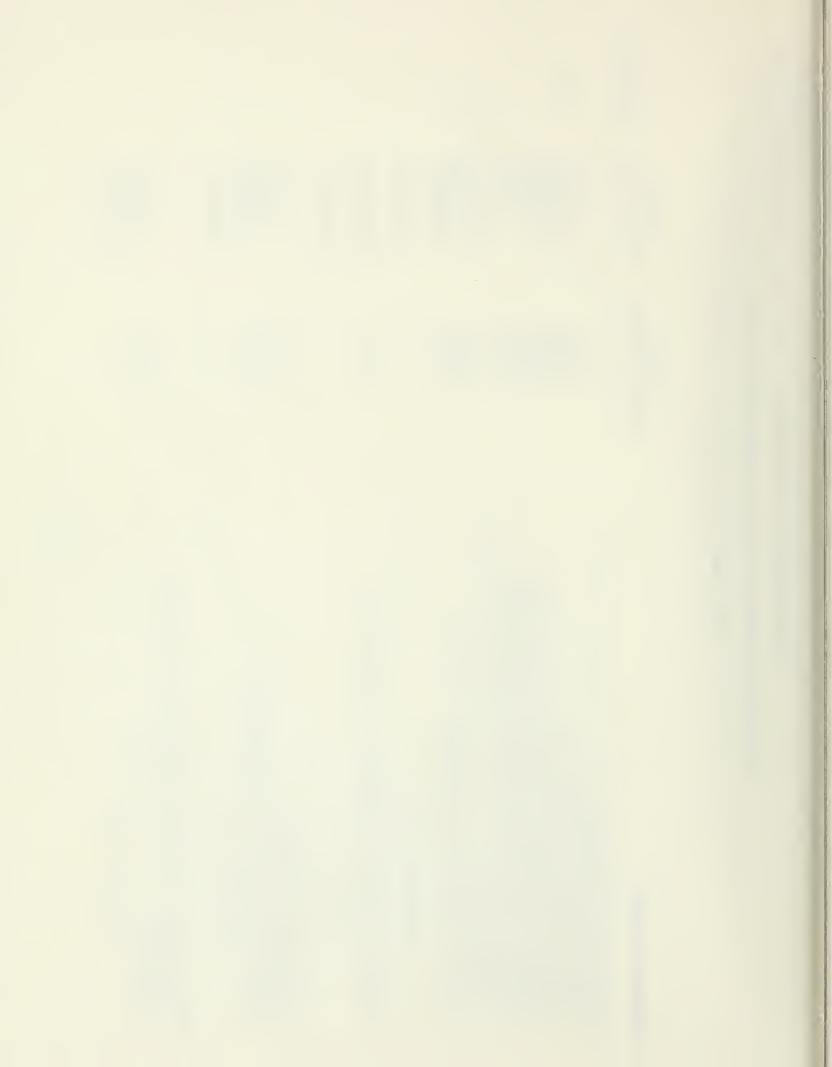


CITY AND COUNTY OF SAN FRANCISCO

Supplementary Schedule of Federal Assistance, Continued

Year ended June 30, 1988

Department/Program	Catalog Number	Federal Expenditures	Finding No.
U.S. Department of Transportation:			
Airport Development Aid	20.102	\$ 66,733	
Airport Improvement Program	20.106	3,129,100	15
Highway Planning and Construction	20.205	389,189	
Urban Mass Transportation Capital Improvement Grants	20.500	2,358,800	
Urban Mass Transportation Managerial Training Grants	20.503	33,707	
Urban Mass Transportation Technical Studies Grants	20.505	71,209	
Urban Mass Transportation Capital and Operating Assistance Formula Grants	20.507	18,586,239	14
Urban Mass Transportation Technical Assistance	20.512	20,512	
State and Community Highway Safety	20.600	196,224	
Department Total		24,831,898	
Environmental Protection Agency:			
Construction Grants for Wastewater Treatment Works	66.418	15,316,790	
Department Total		15,316,790	
U.S. Department of Energy:			
State Energy Conservation	81.041	195,183	
Energy Task Force for the Urban Consortium	81.081	58,855	
Conservation Research and Development	81.086	333,575	
Department Total		587,613	
Federal Emergency Management Agency:			
Civil Defense - State and Local Emergency Management Assistance	83.503	122,544	
State Disaster Preparedness Grants	83.505	11,538	
Department Total		134,082	

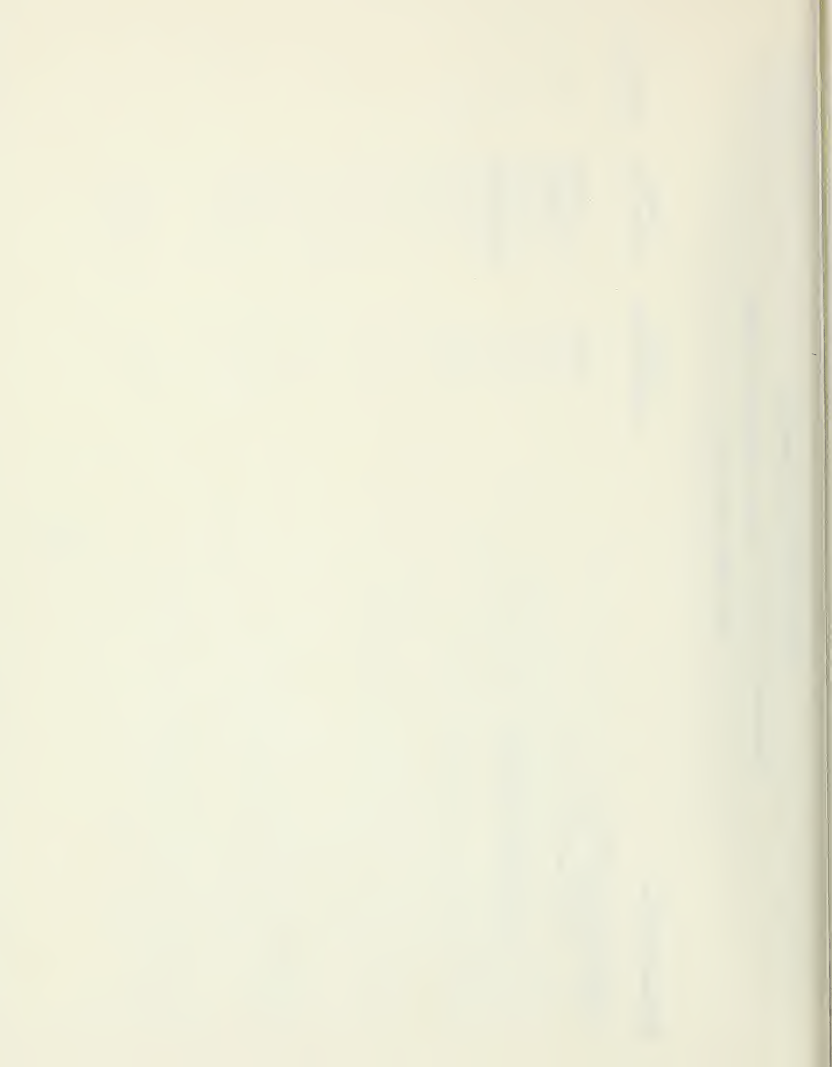


CITY AND COUNTY OF SAN FRANCISCO

Supplementary Schedule of Federal Assistance, Continued

Year ended June 30, 1988

<u>Department/Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>	<u>Finding No.</u>
U.S. Department of Education: Library Services			
Department Total	84.034	\$ <u>862,362</u> <u>862,362</u>	
Total Federal Assistance		\$ <u>177,109,095</u>	1



CITY AND COUNTY OF SAN FRANCISCO

Notes to Supplementary Schedule of Federal Assistance

Year ended June 30, 1988

(1) Scope of Report

The Schedule of Federal Assistance includes the federal assistance programs of the City and County of San Francisco (the City) Office of the Controller, Clean Water Program, San Francisco International Airport, the Port of San Francisco, the Water Department/Hetch Hetchy Project, the Municipal Railway and the San Francisco Redevelopment Agency.

(2) Basis of Accounting - Federal Assistance Programs

The accompanying schedule of federal financial assistance has been prepared on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available, and expenditures are recorded when the liability is incurred. Revenues for most federal assistance programs are received as reimbursement for specific purposes or projects and are recognized based upon the eligible expenditures recorded.

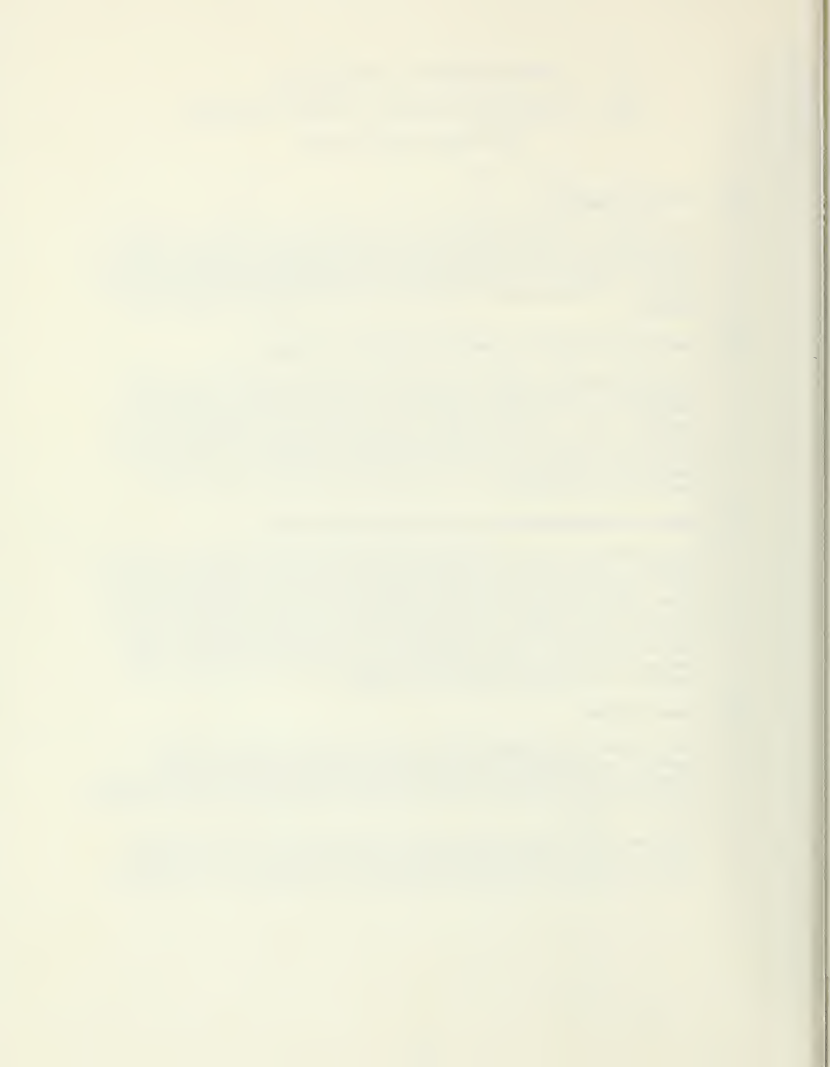
(3) Basis of Presentation - Clean Water Program Grants

Expenditures of the Clean Water Program are recorded when incurred. However, for purposes of presenting the Program's current fiscal year grant expenditures, only those expenditures which have been within grant award limitations and submitted to the State Water Resources Control Board (SWRCB) for reimbursement have been presented. Such expenditures have been reduced by the City's funding participation and an estimate of what the SWRCB will ultimately disallow. The estimate is based on the historical experience of each grant with regard to costs questioned by the SWRCB.

(4) Loan Programs

The Community Development Block Grants (CDBG) program sponsors several loan programs which are administered by various local financial institutions. The City records expenditures when the funds are advanced to the financial institution and program income when the funds are repaid.

The CDBG program has made deposit arrangements with the financial institutions to help ensure repayment of the loans. The deposits will be returned to the CDBG program upon termination of the loans.



INDEPENDENT AUDITORS' COMBINED REPORT ON COMPLIANCE
AT THE COMBINED FINANCIAL STATEMENT LEVEL
AND AT THE FEDERAL ASSISTANCE PROGRAM LEVEL
(MAJOR AND NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS)

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the combined financial statements of the City and County of San Francisco for the year ended June 30, 1988, and have issued our report thereon dated November 9, 1988. These combined financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and whether management has complied with laws and regulations and has established and maintained a system of internal controls. An audit in accordance with those standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The management of the City and County of San Francisco is also responsible for the City's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records that included, but were not limited to, transactions and records relating to each major federal financial assistance program and certain nonmajor federal financial assistance programs. The purpose of our testing of transactions and records was to obtain reasonable assurance that the City and County of San Francisco had, in all material respects, administered its major programs and executed the tested nonmajor program transactions in compliance with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the City's combined financial statements. Such laws and regulations include those pertaining to federal financial reports and claims for advances and reimbursements.

In our opinion, for the year ended June 30, 1988, the City and County of San Francisco administered each of its major federal financial assistance programs in compliance, in all material respects, with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with certain laws and regulations. All instances of noncompliance that we found, and the programs to which they relate, are identified in the accompanying schedule of findings and questioned costs, the ultimate resolution of which cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made to the federal financial assistance programs to which they relate. We do not believe these instances of noncompliance could have a material effect on the allowability of program expenditures.

The results of our testing of transactions and records selected from nonmajor federal financial assistance programs indicate that, for the transactions and records tested, the City and County of San Francisco complied with the laws and regulations referred to in the third paragraph of our report, except as described in the accompanying schedule of findings and questioned costs. Our testing was more limited than would be necessary to express an opinion on whether the City and County of San Francisco administered those programs in compliance, in all material respects, with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures.

The results of our tests also indicate that for the transactions and records tested, the City and County of San Francisco complied with those laws and regulations for which noncompliance could have a material effect on the City's combined financial statements.

This report is intended solely for the use of management and the cognizant agency, the State of California Controller's Office, and should not be used for any other purposes. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City and County of San Francisco, is a matter of public record.

Peat Marwick Main & Co.

Doye, Williams, Adley & Company

Chick Van

November 9, 1988
San Francisco, California



CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

General

Finding No. 1

For the year ended June 30, 1988, the City had not implemented all procedures recommended in the previous year's Schedule of Findings and Questioned Costs concerning internal grant administration. The City is still in the process of automating its single audit inventory report (SAUDIT) which is the basis for the Schedule of Federal Financial Assistance. We noticed improvement in the City's accounting and administrative system during the year through the development of a monthly FAMIS Subvention Status Report to be used for monitoring purposes. Although this report has improved the control over grants and subventions reporting, it is not developed to the degree necessary to distinguish and evaluate current year expenditures from prior year revenue adjustments and reclassifications.

Recommendation

We recommend that the City continue to enhance its Single Audit capabilities in the following areas:

1. Continue to work towards automating the preparation of the SAUDIT report.
2. Monitor grant information on a quarterly basis.
3. Establish formal procedures to receive and review the propriety of the departmental reconciliations to verify that the grant data has been properly recorded in the Financial Accounting Management Information Systems (FAMIS). Significant prior year revenue adjustments or reclassifications should be identified and investigated with the departments as well as current year claim activity that has not been satisfied with remittances on a timely basis.
4. Encourage the use of new transaction codes currently under development which will more accurately record prior year revenue adjustments.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Housing and Urban Development
Community Development Block Grant

Finding No. 2

During our review of one subrecipient's file, we discovered that a Mr. Hodges, a member of the Board of Directors of Bayview Hunters Point Community Foundation (BVHP), is also the Assistant Secretary for BVHP with check signing authority. Mr. Hodges had previously been a director of Hunter's Point Economic Development Program (HPEDP) and had been convicted of embezzlement of \$18,837.

Recommendation

The Mayors Office of Community Development should evaluate this situation to determine if appropriate controls are in place to safeguard grantor funds.

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Housing and Urban Development

Community Development Block Grant

Finding No. 3

The San Francisco Redevelopment Agency (SFRA) is a subrecipient of Community Development Block Grant (CDBG) funds and as such is subject to the provisions of OMB Circulars A-87, A-128, and all other restrictions related to CDBG funds. During our audit testwork, two minor items were identified as questioned costs. The first was noted on an invoice from SFRA's attorney. A portion of one line item of \$20 on a \$28,861.66 invoice was spent on refreshments. The second relates to a late (finance) charge of \$4.59 paid after its initial due date.

Recommendation

The SFRA has established control systems to identify potential unallowable expenditures for major items. Similar control procedures do not exist, however, for items under \$10,000. We recommend SFRA reevaluate its control policies for identifying less significant unallowable costs. Establishing additional control policies will provide assurance that all expenses claimed are allowable under the provisions established for CDBG funds.

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Health and Human Services

Foster Care - Title IV E

Finding No. 4

During our review of 45 Foster Care case files, we noted the following deficiencies and questioned costs:

	<u>Questioned costs</u>
1. Case #011114-13 did not contain a copy of the petition, and case #0781607-11 did not contain a copy of the petition and court order. These documents are necessary to support Federal eligibility.	\$ 3,378
2. Case #601203-14 and #0262184-10 did not contain copies of the CA-1, CA-2, and CA-7. These documents are necessary in order to support Federal eligibility.	6,569
3. Case #901654-11 did not contain a copy of form 278LMB. This form is required to support Federal eligibility.	400
4. Case #0960346-14 did not have sufficient documentation to support Federal eligibility. Many essential forms were missing.	355
5. Case #0155557-11 contained information that directly compromised the AFDC-FG/U linkage requirement which renders the child ineligible for Federal aid.	<u>3,196</u>
Total questioned costs	\$ <u>13,898</u>

In addition, we noted that the Foster Care case file load has increased from approximately 1,350 case per month in 1986 to 1,700 in 1987, with additional increases in 1988. Staffing has remained virtually the same. Our review of State Quality Control Findings revealed several "failures to conduct timely periodic reviews", resulting in potential disallowance of benefits made after the scheduled review date. Partially as a result of the increase in case loads, there has been an increase in errors and discrepancies in the case files.

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Health and Human Services

Foster Care - Title IV E

Recommendation

We recommend that these situations be appropriately resolved and that a monitoring system be implemented in order to ensure that all case files contain the required documentation for federal aid. This could be accomplished through the use of a review checklist which includes all of the required forms and documentation. When the case file is reviewed by the supervisor, he/she should initial a space next to the appropriate item on the check list. The status of the case could be monitored by the eligibility worker and the supervisor, and they would be aware of all outstanding items to complete the file.

To address the increase in case load, the Department of Social Services should reevaluate its staffing needs with respect to Foster Care and consider hiring more case workers if case loads continue to increase.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Health and Human Services
Foster Care - Title IV E

Finding No. 5

During our review of the Department of Social Services (the Department) Assistance Claims for monthly Foster Care, we noted that the direct assistance claims for January and July 1988 were submitted after the deadline. The claims were honored by the state in full, but were accompanied by a letter indicating future funding might be delayed.

Recommendation

The Department should strengthen procedures to ensure that assistance claims are submitted on a timely basis.

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Health and Human Services

Family Support Payments to States - Assistance Payments (AFDC)
and
Refugee and Entrant Assistance

Finding No. 6

According to state regulations, monetary changes made by claims workers to Social Services claimant benefits must have evidence of supervisory review. The Department of Social Services (the Department) has a review policy as an internal control over claims payments. In our compliance testwork of the Department's system of internal controls we noted that several items tested lacked the required signatures of supervisors. We have been informed by the Department's management that this situation is caused by a shortage of personnel at the supervisor level. Absence of supervisory review increases the risk of Department staff not discovering incorrect or fraudulent changes in benefits.

The following summarizes the exceptions noted during our testwork of 67 case files:

Forms Lacking Supervisor
Initials

Form 278 LMI-BI - Authorizing Document

3

This form is used to authorize the warrant issuance. These forms are signed by the eligibility worker and initialed by a unit supervisor. The unit supervisor's signature documents that the case has been reviewed in detail, confirming that the recipient is authorized and that the case has been processed in accordance with regulations and applicable statutes.

In addition, the Department's policies require preparation of the "Face Sheet" (Form 8007). In our review, the following six out of 67 case files did not include the Form 8007 document:

302-003464-00
300-928626-00
350-152230-00
300-527714-00
300-693940-00
300-004012-00

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

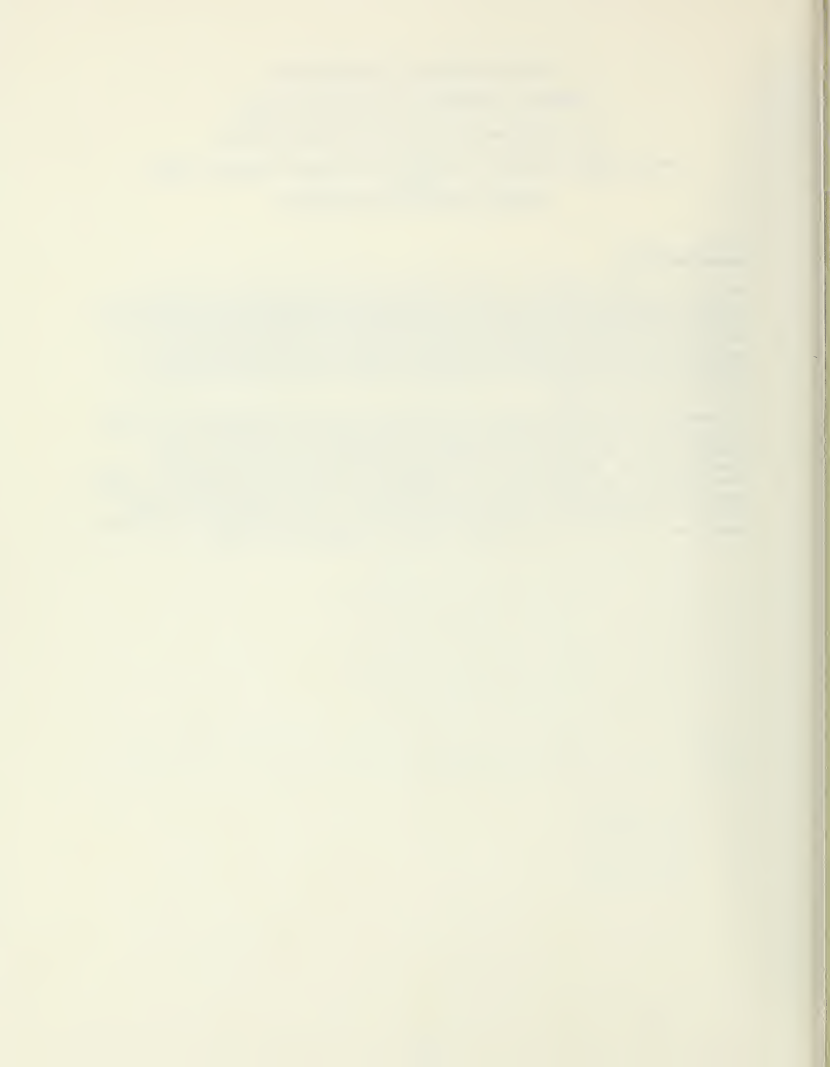
U.S. Department of Health and Human Services

Family Support Payments to States - Assistance Payments (AFDC)
and
Refugee and Entrant Assistance

Recommendation

Due to the large number of claim payments and the magnitude of total welfare expenditures to the City, the Department should give consideration to reemphasizing its internal control policies for supervisorial review. Review of the appropriateness and effectiveness of existing control policies will help the City evaluate whether incorrect or fraudulent payments would be detected by department staff, thus preventing loss of City and Federal funds.

In addition, we recommend that a monitoring system be implemented in order to ensure that all case files contain the required documentation for Federal aid. This could be accomplished through the use of a review checklist which includes all of the required forms and documentation. When the case file is reviewed by the supervisor, he/she should initial a space next to the appropriate item on the check list. The status of the case could be monitored by the eligibility worker and the supervisor, and they would be aware of all outstanding items to complete the file.



CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Health and Human Services
Child Support Enforcement

Finding No. 7

The Family Support Bureau (FSB) processing of case files requires a "Paternity Questionnaire" to be completed by the recipient during the initial interview. This questionnaire was not completed for six cases out of the 30 case files reviewed:

7618480C, 76901305A, 619414632, 76214270B, 621203901,
and 76400952A

Recommendation

We understand that certain cases do not require a paternity questionnaire. The above cases should be followed-up appropriately and procedures should be strengthened to ensure that all required documents are completed or noted as not required. During each interview, the FSB should ascertain the recipient's marital status with the obligor and document paternity or indicate in some manner in the file that paternity inquiries are not required.



CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Health and Human Services
Child Support Enforcement

Finding No. 8

In our review of case file documentation, we noted that case #621203901, established September 1, 1981, lacked sufficient documentation over a period of five years to support restitution of \$27,595 provided by the state. After this time period, the case was closed due to the expiration of the legal documents.

Recommendation

Case file activities should be monitored more closely by the Family Support Bureau staff and the status of each case should be appropriately documented on a timely basis.

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Health and Human Services

Child Support Enforcement

Finding No. 9

During our testwork of the quarterly claims, we noted that the detail supporting schedule from which the Child Support Claim Form is prepared had errors in two accounts, Medical Service and Other Medical Service, for the first and second quarter claims. The first quarter claim was understated by \$1,230 and the second quarter claim was overstated by \$1,600. The overstatement resulted from claiming a purchase order amount versus the actual amount expended under the purchase order.

Recommendation

The detail supporting schedule should be reviewed to determine that only expended funds are claimed and amounts should be recalculated to ascertain the accuracy of the claim amounts.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Health and Human Services
Refugee and Entrant Assistance

Finding No. 10

In our eligibility testwork we compared 38 warrant endorsements to application signatures in the clients' case files. Two warrant endorsements differed markedly from the original signatures. No investigation of the disparities appeared to have been made.

The total questioned cost is summarized as follows:

<u>Warrant Number</u>	<u>Amount</u>
5204-720678	\$ 418.50
5204-718640	<u>516.00</u>
	\$ <u><u>934.50</u></u>

Recommendation

We recommend that the Fraud Investigation Unit of the Department of Social Services (the Department) compare warrant endorsements to original applications on a periodic basis. The Department should research any obvious disparities and include documentation of the research in the files.

CITY AND COUNTY OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Health and Human Services

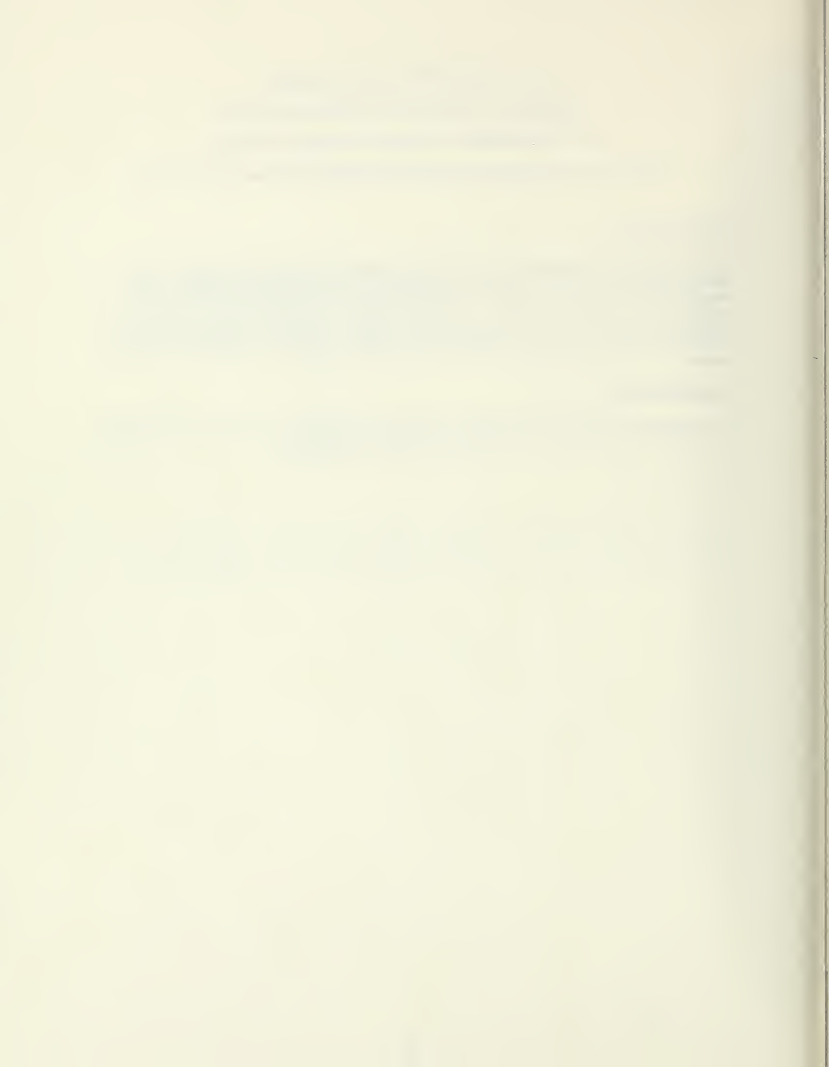
Alcohol and Drug Abuse and Mental Health Services Block Grant

Finding No. 11

The Alcohol and Drug Abuse and Mental Health Services Department (the Department) as of the date of our report had not filed its annual cost report with the state and had not received a written extension from the September 30, 1988 due date. Funding under the program has not been withheld during the year ended June 30, 1988, however, funding has been withheld for the 1988-89 fiscal year pending receipt of the annual cost report.

Recommendation

We recommend that the Department establish procedures to file its reports on a more timely basis to provide funding continuity.



CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Health and Human Services
Various Programs Administered by the
City Department of Social Services

Finding No. 12

During our review of the City Department of Social Services (the Department) administrative cost allocation used for quarterly federal assistance claims, we noted the following:

1. Out of the 30 time studies tested, one was not approved by the line supervisor.
2. The first and fourth quarter claims for fiscal year 1987/88 were submitted a week later than the deadline (45 days after quarter's end).

Recommendation

The Department should improve procedures to ensure that the quarterly administrative claims are properly reviewed and are submitted on a timely basis.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Transportation
Urban Mass Transportation Capital and
Operating Assistance Formula Grants

Finding No. 13

In our testwork of compliance with laws and regulations, we noted that a contract with Multisystems did not have a provision stating "that Muni has access to any books, documents, etc. that are pertinent to the contract."

Recommendation

We recommend that all contracts be reviewed in order to ascertain appropriate compliance with laws and regulations.



CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
U.S. Department of Transportation
Airport Improvement Program

Finding No. 14

The cumulative expenditures claimed under ADAP 6-06-0221-08 through June 30, 1988 include a \$7,500 penalty that was assessed by the Airport to a contractor due to a delay in the completion of a contract. The final payment to the contractor was reduced by the penalty. The cost submitted on the claim for reimbursement, however, included the penalty. This item is a questioned cost as it should not be a part of the claim for reimbursement.

\$ 7,500

This questioned cost is reduced by the under-reporting of other costs on the claim for reimbursement as follows:

Understatement of inspection fees	(2,691)
Understatement of construction costs	<u>(438)</u>

Net overstatement of cumulative expenditures claimed

\$ 4,371

During the year ended June 30, 1988, the Airport received all reimbursements claimed under ADAP 6-06-0221-08 including the federal share of the overstatement described above of \$3,278 (\$4,371 x 75%).

Recommendation

Upon the filing of the final claim, the Airport should reduce the cumulative expenditures claimed by the costs described above.

We understand that the Airport is aware of the above finding and will make the necessary adjustment to the final claim.



DOYLE, WILLIAMS, ADLEY & COMPANY

KPMG Peat Marwick

Chek F. Tan

INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL
AT THE COMBINED FINANCIAL STATEMENT LEVEL

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the combined financial statements of the City and County of San Francisco for the year ended June 30, 1988, and have issued our report thereon dated November 9, 1988. These combined financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and whether management has complied with laws and regulations and has established and maintained a system of internal controls. An audit in accordance with those standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Under the date of November 9, 1988, we reported separately on the results of our study and evaluation of internal accounting and administrative controls used in administering federal financial assistance programs. The results of our study and evaluation of internal controls other than those used in administering federal financial assistance programs are presented herein. For the purpose of this report, we have classified the significant internal accounting controls in the following categories: general controls; the internal audit function; budgetary data; and property tax assessments and billings. Our study and evaluation included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the combined financial statements of the City and County of San Francisco. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of control identified above.

The management of the City and County of San Francisco is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded

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The Honorable Mayor and Board of Supervisors
City and County of San Francisco:
Page 2

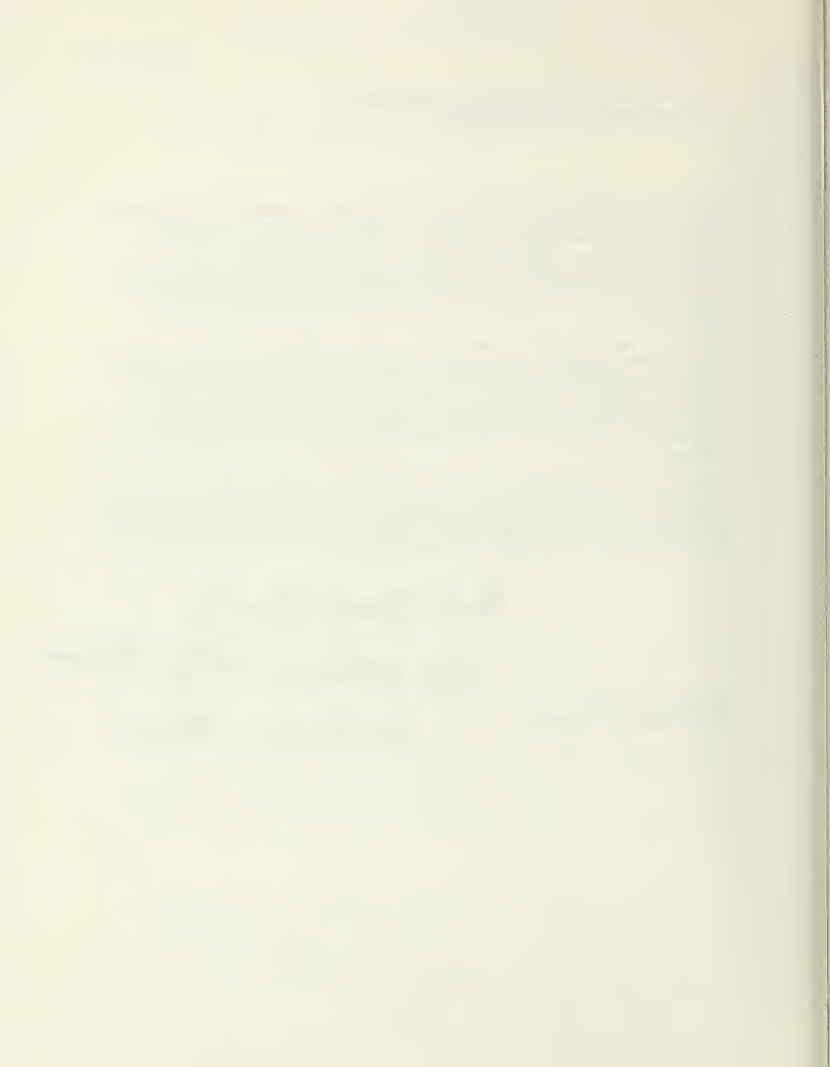
properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first three paragraphs would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City and County of San Francisco taken as a whole or on any of the categories of controls identified in the third paragraph. However, our study and evaluation and our audits disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the cognizant agency, the State of California Controller's Office and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City and County of San Francisco, is a matter of public record.

Peat Marwick Main & Co.
Doyle, Williams, Adley & Company
Cheuk Tan

November 9, 1988
San Francisco, California



INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING AND ADMINISTRATIVE
CONTROLS AT THE FEDERAL ASSISTANCE PROGRAM LEVEL

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the combined financial statements of the City and County of San Francisco for the year ended June 30, 1988 and have issued our report thereon dated November 9, 1988. These combined financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatements, whether management has complied with laws and regulations, and whether management has established and maintained a system of internal accounting and administrative controls. An audit in accordance with those standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Under the date of November 9, 1988, we reported separately on the results of our study and evaluation of internal accounting controls performed in connection with our audit of the combined financial statements. The results of our study and evaluation of internal accounting and administrative controls used in administering federal financial assistance programs are presented herein.

For purpose of this report, we have classified the significant internal accounting and administrative controls used in administering the major Federal financial assistance programs in the following categories:

Accounting controls

- Revenues and receipts
- Expenditures and disbursements
- Payroll

General and specific administrative controls used in the administering of major federal assistance programs

General requirements:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports

Specific requirements:

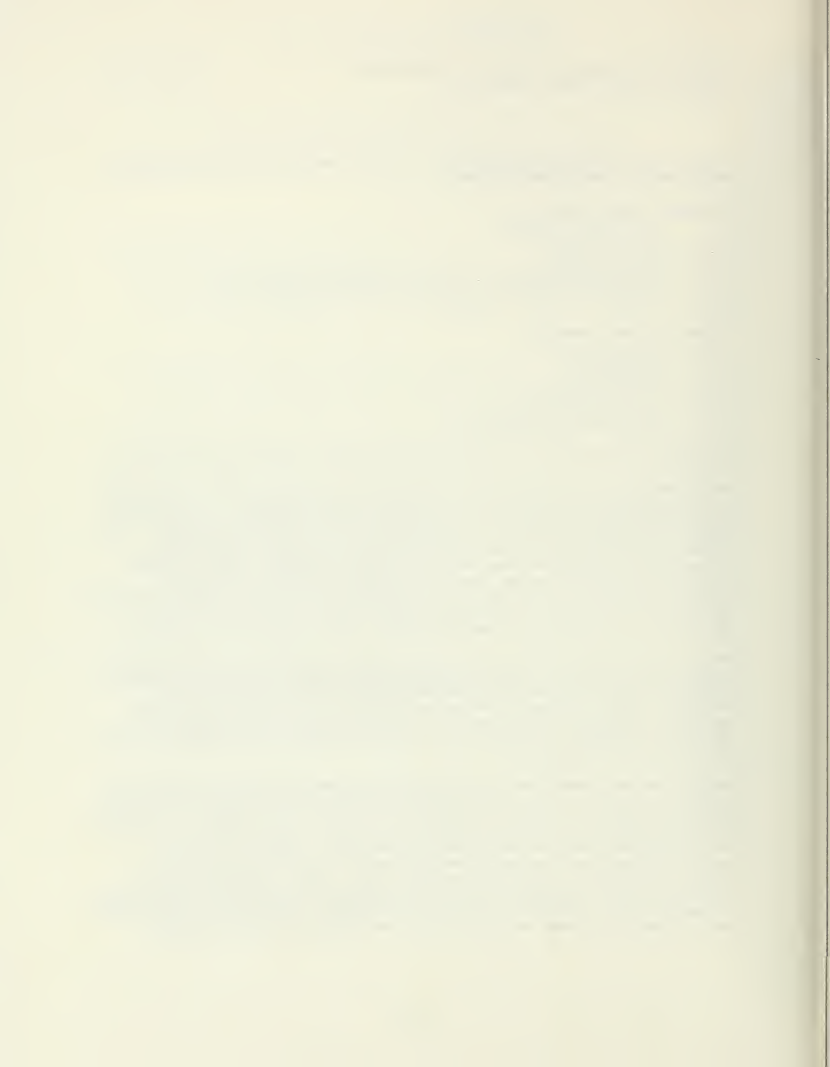
- Types of services
- Eligibility
- Reporting
- Cost allocation
- Special requirements
- Monitoring subrecipients

Our study and evaluation included all the control categories listed above.

The management of the City and County of San Francisco is also responsible for establishing and maintaining internal control systems. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

During the year ended June 30, 1988, the City and County of San Francisco expended 88 percent of its total federal financial assistance under major federal financial assistance programs for the entities defined in note 1 to the Supplementary Schedule of Federal Assistance. With respect to internal control systems used in administering these major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.



With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Accordingly, our audit would not necessarily disclose material weaknesses in the internal accounting systems used in administering nonmajor federal financial assistance programs.

Our study and evaluation described above was more limited than would be necessary to express an opinion on the internal control systems of the City and County of San Francisco. Accordingly, we do not express an opinion on the internal control systems used in administering the major and nonmajor federal financial assistance programs of the City and County of San Francisco. However, our study and evaluation and our audit disclosed the condition described on page 67 that we believe results in more than a relatively low risk that error or irregularities in amounts that would be material in relation to the federal financial assistance programs may occur and not be detected within a timely period. In our letter to John C. Farrell, Controller, we have separately communicated our observations and recommendations regarding certain other matters, including those pertaining to nonmaterial internal control findings.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in (1) our audit of the 1988 combined financial statements and (2) our audit and review of the City's compliance with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures. This report does not affect our reports on the combined financial statements and on the City's compliance with laws and regulations dated November 9, 1988.

This report is intended solely for the use of management and the cognizant agency, the State of California Controller's Office, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City and County of San Francisco, is a matter of public record.

Peat Marwick Main & Co.

Doyle, Williams, Adley & Company

Chick Van

November 9, 1988
San Francisco, California

No.	Name	Sex	Age
1	John Smith	M	25
2	Mary Jones	F	22
3	James Brown	M	28
4	Elizabeth White	F	24
5	William Black	M	30
6	Ann Green	F	26
7	Robert Grey	M	32
8	Jane Gold	F	28
9	Thomas Silver	M	34
10	Margaret Copper	F	30
11	Charles Lead	M	36
12	Elizabeth Tin	F	32
13	John Zinc	M	38
14	Mary Iron	F	34
15	James Steel	M	40
16	Ann Nickel	F	36
17	Robert Cobalt	M	42
18	Jane Manganese	F	38
19	Thomas Vanadium	M	44
20	Margaret Chromium	F	40

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CITY AND COUNTY OF SAN FRANCISCO
COMMENT ON FEDERAL ASSISTANCE PROGRAMS

General

Situation

Many federal assistance programs are controlled and monitored at the departmental level. During our testwork we noted improvements over prior years. However, some department records, including those of the Department of Social Services and the Mayor's Office of Community Development, of receivables and to a lesser extent of expenditures and claims did not reconcile to FAMIS. In some other instances, records were reconciled but reconciling items were not researched and/or adjusted. Since federal claims reports may be based on departmental records rather than the City's basic accounting records (FAMIS), a reconciliation must be performed to assure that claims reports are being properly submitted.

Recommendation

We recommend that the Office of Controller Grants Division establish procedures and provide training to the departments to assist them in this reconciliation process. At a minimum, the departments should:

1. determine that revenue accruals are based upon eligible expenditures (for expenditure-driven grants);
2. verify ending grants received in advance balances by comparing the advance amount to subsequent eligible expenditures for the appropriate period;
3. prepare adjustments to correct ineligible, uncollectible or unreconciled amounts;
4. reconcile FAMIS expenditures to claims reports;
5. compare claims reports and subsequent adjustment to remittances; and
6. compare remittance reports to FAMIS remittances.

We recommend that these procedures be performed and documented at least quarterly and, as discussed in Finding No.1 on page 46, that they be reviewed by a member of the Controller's Grants Division.

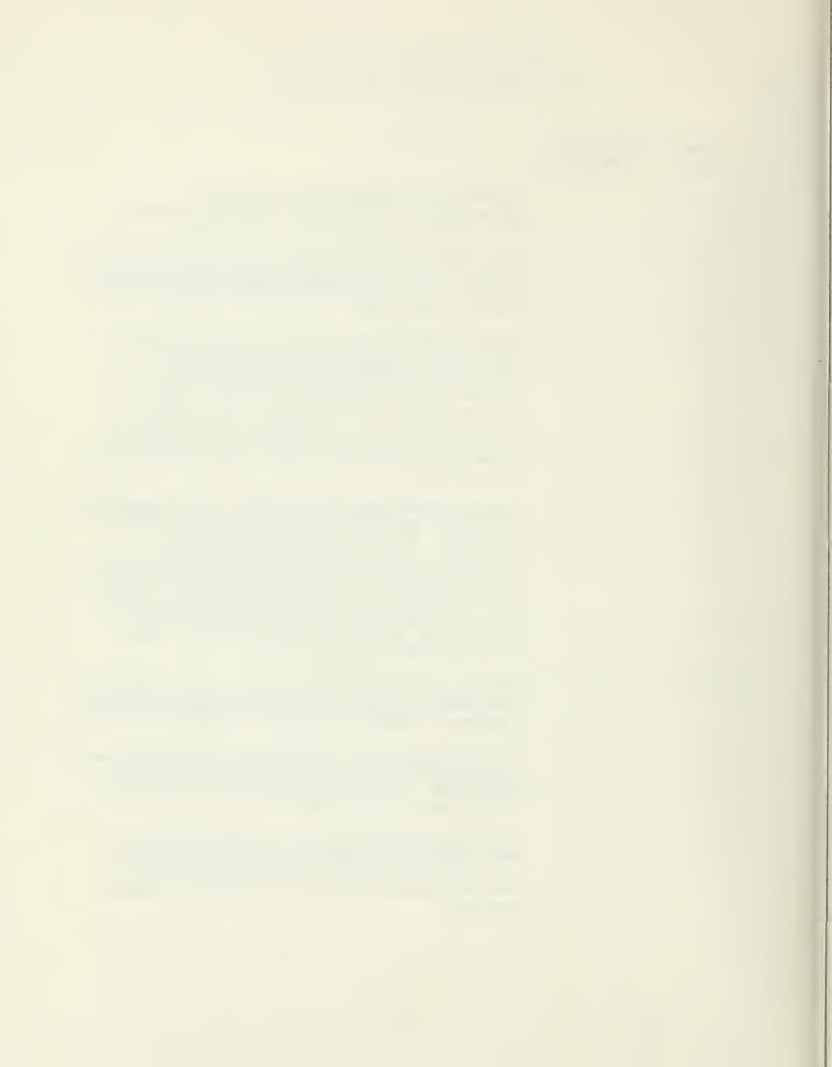


CITY AND COUNTY OF SAN FRANCISCO

Status of Prior Year Comments

June 30, 1987 Report
Page No. Comment No.

39	1	<u>Financial Accounting System - General.</u> Reconciliation differences still exist and have been addressed on page 46 of this report.
40	2	<u>State Administrative Matching Grants for Food Stamp Program - U.S. Department of Agriculture - Quality Control.</u> The error rate has been reduced in the current fiscal year.
41	3	<u>National School Breakfast Program and National School Lunch Program - U.S. Department of Agriculture - Documentation and Reporting.</u> This program was not tested as it is not a major program. The City has indicated the corrective action plan is in the process of implementation. We recommend that the internal audit department assess the progress being made with the corrective action plan.
43	4	<u>Community Development Block Grant - U.S. Department of Housing and Urban Development - Subrecipient Reporting.</u> As of the date of our report, November 9, 1988, the Single Audit reports of the San Francisco Housing Authority (SFHA) for the year ended September 30, 1987 had been issued in draft form. Discussions with SFHA personnel, however, have indicated that the draft report does not indicate any questioned costs relating to CDBG Funds provided through the City.
44, 45	5, 6	<u>Community Development Block Grant - U.S. Department of Housing and Urban Development - Letter of Credit Drawdowns.</u> Comments have been resolved.
46	7	<u>Community Development Block Grant - U.S. Department of Housing and Urban Development - Subrecipient Monitoring.</u> Subrecipient monitoring has improved in the June 30, 1988 audit.
47	8	<u>Child Support Enforcement - U.S. Department of Health and Human Services - Claiming Procedures.</u> Civil Service training is now claimed based on interdepartmental work order statements, comment resolved.



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| 48 | 9 | <u>Child Support Enforcement - U.S. Department of Health and Human Services - Errors in Quarterly Claims.</u> Comment has been resolved. |
| 49 | 10 | <u>Child Support Enforcement - U.S. Department of Health and Human Services - Directional Signs.</u> Comment has been resolved. |
| 50 | 11 | <u>Child Support Enforcement - U.S. Department of Health and Human Services - Locate Procedures.</u> Compliance with the District Attorney's applicable "locate" procedures was tested for the fiscal 1987-88 Single Audit. Similar findings related to deficiencies in "locate" procedures were not noted for the files tested. |
| 51 | 12 | <u>Child Support Enforcement - U.S. Department of Health and Human Services - Timely Submission of Claims.</u> Compliance for timely submission of claims was tested for the fiscal 1987-88 single audit and similar findings were not noted. |
| 52 | 13 | <u>Family Support Payments to States - Assistance Payments (AFDC) - U.S. Department of Health and Human Services - Strengthen Accounting Procedures for the City's Revolving Fund.</u> Comment has been resolved. |
| 53 | 14 | <u>Family Support Payments to States - Assistance Payments (AFDC) - U.S. Department of Health and Human Services - Quarterly Administrative Claim.</u> This condition still exists. See similar comment at Finding No. 12 on page 59 of this report. |
| 54 | 15 | <u>Assistance Payments - Maintenance Assistance (AFDC) - Warrant Endorsements.</u> This condition still exists. Similar comment appears as Finding No. 10 on page 57 of this report. |
| 55 | 16 | <u>Foster Care - Title IV E - Department of Health and Human Services - Case File Completeness.</u> This condition still exists. Similar comment appears in Finding No. 4 on page 49 of this report. |



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56	17	<u>Foster Care - Title IV E - Department of Health and Human Services - Case File Completeness.</u> This condition still exists. See similar comment at Finding No. 4 on page 49 of this report.
57	18	<u>All Programs - U.S. Department of Health and Human Services - Outstanding Audits and Court Cases.</u> Final resolution will be coordinated with Federal and/or State Agencies.
58,59	19	<u>Refugee and Entrant Assistance and Family Support Payments to States - Maintenance Assistance (AFDC) - U.S. Department of Health and Human Services - Internal Controls Over Claim Payments.</u> A portion of this condition still exists. See similar comment at Finding No. 6 on page 52 of this report.
60	20	<u>U.S. Department of Health and Human Services - The Department of Social Services Outstanding Subvention Receivable and Received in Advance Amounts.</u> This condition still exists. A similar comment has been included as an internal control comment in the management letter to the City.
61	21	<u>Cost Allocation Plan.</u> This condition will be corrected through the rollforward mechanism used for allocation calculations.
62	22	<u>Federal Reserve Sharing - U.S. Department of Treasury.</u> Comments has been resolved.
63	23	<u>Urban Mass Transportation Capital Improvement Grants - U.S. Department of Transportation.</u> Comment has been resolved.
64	24	<u>Airport Improvement Program - U.S. Department of Transportation.</u> This condition still exists. See similar comment at Finding No. 14 on page 61 of this report.

